

CITY OF KING COVE, ALASKA

Basic Financial Statements, Required Supplementary Information,
Additional Supplementary Information and Compliance Report

Year Ended June 30, 2017

CITY OF KING COVE, ALASKA

Basic Financial Statements, Required Supplementary Information,
Additional Supplementary Information and Compliance Report

Year Ended June 30, 2017

CITY OF KING COVE, ALASKA

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Independent Auditor's Report

Members of the City Council
City of King Cove
King Cove, Alaska

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of King Cove, Alaska, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City of King Cove's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of King Cove, Alaska, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund, and the Water and Sewer Special Revenue Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Schedule of the City's Proportionate Share of the Net Pension Liability and Schedule of the City's Contributions to the Public Employees' Retirement System on pages 44 to 45 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The information listed in the Table of Contents as "Additional Supplementary Information," which includes combining and individual major and nonmajor fund financial statements and schedules and business-type activities schedules, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Additional Supplementary Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Additional Supplementary Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

We also have previously audited, in accordance with auditing standards generally accepted in the United States of America, the City's basic financial statements for the year ended June 30, 2017, which are not presented with the accompanying financial statements and we expressed unmodified opinions on the respective financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information. That audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements as a whole. The additional supplementary information related to the 2017 financial statements which includes the individual major and nonmajor fund financial schedules and business-type activities schedules for the year ended June 30, 2017, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2016 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of those basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2017 additional supplementary information listed above are fairly stated in all material respects in relation to the basic financial statements from which they have been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 22, 2018, on our consideration of City of King Cove's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of King Cove's internal control over financial reporting and compliance.



Anchorage, Alaska
May 22, 2018

CITY OF KING COVE, ALASKA

Statement of Net Position

June 30, 2017

<u>Assets and Deferred Outflows of Resources</u>	Governmental Activities	Business-type Activities	Total
Cash and cash equivalents	\$ 1,409,810	-	1,409,810
Receivables:			
Accounts	600,073	163,835	763,908
Sales taxes	298,201	-	298,201
Grants	-	50,454	50,454
Other	2,955	-	2,955
Allowance for doubtful accounts	-	(5,099)	(5,099)
Prepaid expenses	-	15,000	15,000
Internal balances	1,328,835	(1,328,835)	-
Inventories	96,731	-	96,731
Investment in Southwest Governments, LLC	118,136	-	118,136
Restricted cash - bond reserves and unspent bond proceeds	-	274,781	274,781
Capital assets, not being depreciated	902,585	6,179,353	7,081,938
Other capital assets, net of accumulated depreciation	19,305,929	20,318,528	39,624,457
Total assets	24,063,255	25,668,017	49,731,272
Deferred outflows of resources - Pension deferrals	290,354	88,838	379,192
Total assets and deferred outflows of resources	\$ 24,353,609	25,756,855	50,110,464
<u>Liabilities, Deferred Inflows of Resources and Net Position</u>			
Accounts payable	81,678	19,810	101,488
Accrued payroll and related liabilities	96,459	23,266	119,725
Customer deposits	-	6,188	6,188
Accrued interest payable	14,314	30,929	45,243
Noncurrent liabilities:			
Due within one year:			
Accrued leave	-	17,523	17,523
Bonds	-	180,000	180,000
Loans	62,980	-	62,980
Due in more than one year:			
Accrued leave	132,848	-	132,848
Bonds	-	2,640,000	2,640,000
Loans	1,157,407	-	1,157,407
Landfill closure	1,040,974	-	1,040,974
Unamortized bond premium	-	182,361	182,361
Net pension liability	1,611,292	574,696	2,185,988
Total liabilities	4,197,952	3,674,773	7,872,725
Deferred inflows of resources - Pension deferrals	200,718	89,217	289,935
Net position:			
Net investment in capital assets	18,988,127	23,495,520	42,483,647
Unrestricted	966,812	(1,502,655)	(535,843)
Total net position	19,954,939	21,992,865	41,947,804
Total liabilities, deferred inflows of resources and net position	\$ 24,353,609	25,756,855	50,110,464

See accompanying notes to basic financial statements.

CITY OF KING COVE, ALASKA

Statement of Activities

Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business type Activities	Total
Governmental activities:							
General government	\$ 927,669	76,860	496,232	-	(354,577)	-	(354,577)
Public safety	737,700	-	17,082	-	(720,618)	-	(720,618)
Public works	1,168,166	-	8,058	153,022	(1,007,086)	-	(1,007,086)
Community services	219,468	-	7	-	(219,461)	-	(219,461)
Water and sewer	617,351	427,222	5,548	-	(184,581)	-	(184,581)
Solid waste	98,261	108,844	1,746	-	12,329	-	12,329
Total governmental activities	3,768,615	612,926	528,673	153,022	(2,473,994)	-	(2,473,994)
Business-type activities:							
Electric utility	1,236,940	1,179,349	6,173	50,454	-	(964)	(964)
Harbor and port	975,144	386,113	21,737	-	-	(567,294)	(567,294)
Total business type activities	2,212,084	1,565,462	27,910	50,454	-	(568,258)	(568,258)
Total	\$ 5,980,699	2,178,388	556,583	203,476	(2,473,994)	(568,258)	(3,042,252)
General revenues:							
Taxes					1,847,055	-	1,847,055
Grants and entitlements not restricted to a specific purpose					515,737	-	515,737
Other					14,419	-	14,419
Transfers					(205,400)	205,400	-
Total general revenues and transfers					2,171,811	205,400	2,377,211
Change in net position					(302,183)	(362,858)	(665,041)
Net position, beginning of year					20,257,122	22,355,723	42,612,845
Net position, end of year					\$ 19,954,939	21,992,865	41,947,804

See accompanying notes to basic financial statements.

CITY OF KING COVE, ALASKA

Balance Sheet - Governmental Funds

Year Ended June 30, 2017

	Major Funds				Total Governmental Funds
	General	Water and Sewer Special Revenue	General Capital Projects Fund	Nonmajor Funds	
<u>Assets</u>					
Cash and cash equivalents	\$ 957,986	-	-	451,824	1,409,810
Receivables:					
Accounts	495,059	59,404	28,097	17,513	600,073
Sales taxes	298,201	-	-	-	298,201
Other	2,955	-	-	-	2,955
Due from other funds	401,943	-	509,089	964,052	1,875,084
Advances to other funds	1,372,967	-	-	-	1,372,967
Investment in Southwest Governments, LLC	118,136	-	-	-	118,136
Total assets	\$ 3,647,247	59,404	537,186	1,433,389	5,677,226
<u>Liabilities and Fund Balances (Deficits)</u>					
Liabilities:					
Accounts payable	27,753	710	52,134	1,081	81,678
Accrued payroll and related liabilities	87,614	4,112	-	4,733	96,459
Due to other funds	1,473,141	351,063	-	50,880	1,875,084
Total liabilities	1,588,508	355,885	52,134	56,694	2,053,221
Fund balances (deficit):					
Nonspendable	1,491,103	-	-	-	1,491,103
Committed	-	-	-	1,340,164	1,340,164
Assigned	-	-	485,052	88,239	573,291
Unassigned (deficit)	567,636	(296,481)	-	(51,708)	219,447
Total fund balances (deficit)	2,058,739	(296,481)	485,052	1,376,695	3,624,005
Total liabilities and fund balances	\$ 3,647,247	59,404	537,186	1,433,389	5,677,226

See accompanying notes to basic financial statements.

CITY OF KING COVE, ALASKA

Reconciliation of Governmental Funds Balance Sheet
to Statement of Net Position

June 30, 2017

Total fund balances for governmental funds	\$	3,624,005
Total net position reported for governmental activities in the Statement of Net Position is different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
These assets, net of accumulated depreciation are:		
Land	420,390	
Construction in progress	482,195	
Buildings	4,303,181	
Improvements other than buildings	21,712,923	
Equipment	1,625,738	
Accumulated depreciation	(8,815,235)	
Total capital assets, net of depreciation		19,729,192
Long-term liabilities, including loans payable and accrued leave are not due and payable in the current period and, therefore, are not reported as fund liabilities:		
Loans payable	(1,220,387)	
Landfill closure costs payable	(1,040,974)	
Accrued interest payable	(14,314)	
Accrued leave	(132,848)	
Total long term liabilities		(2,408,523)
The internal service fund is used by management to charge the cost of certain activities to individual funds. The assets and liabilities of certain internal service funds are included in governmental activities in the statement of net position		
		531,921
Pension related assets in the current fiscal year are presented as deferred outflows of resources		
		290,354
Pension related liabilities in the current fiscal year are presented as deferred inflows of resources		
		(200,718)
Proportionate share of the collective net pension liability		(1,611,292)
Total net position of governmental activities	\$	<u>19,954,939</u>

See accompanying notes to basic financial statements.

CITY OF KING COVE, ALASKA

Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit)

Year Ended June 30, 2017

	Major Funds			
	General	Water and Sewer Special Revenue	General Capital Projects Fund	Nonmajor Funds
				Total Governmental Funds
Revenues:				
Taxes	\$ 1,847,055	-	-	-
Intergovernmental:				
Aleutians East Borough	489,536	-	-	-
Federal sources	74,469	-	-	-
State sources	541,428	5,890	88,417	2,041
Charges for services	76,860	427,222	-	108,844
Other	12,095	-	-	2,324
Total revenues	3,041,443	433,112	88,417	113,209
Expenditures:				
Current:				
General government	645,677	-	-	-
Public safety	623,078	-	-	49,001
Public works	445,183	-	282,383	26,251
Community services	144,401	-	-	-
Water and sewer	-	322,749	41,610	4,551
Solid waste	-	-	-	151,545
Other	299,617	-	-	-
Debt service:				
Principal	-	42,175	-	17,475
Interest	-	49,893	-	4,244
Total expenditures	2,157,956	414,817	323,993	253,067
Excess (deficiency) of revenues over expenditures	883,487	18,295	(235,576)	(139,858)
Other financing sources (uses):				
Transfers in	60,000	20,000	725,000	185,000
Transfers out	(1,165,400)	-	(30,000)	-
Net other financing sources (uses)	(1,105,400)	20,000	695,000	185,000
Net change in fund balances	(221,913)	38,295	459,424	45,142
Beginning fund balances (deficit)	2,280,652	(334,776)	25,628	1,331,553
Ending fund balances (deficit)	\$ 2,058,739	(296,481)	485,052	1,376,695

See accompanying notes to basic financial statements.

CITY OF KING COVE, ALASKA

Reconciliation of Change in Fund Balances of Governmental Funds
to Statement of Activities

Year Ended June 30, 2017

Net change in fund balances - total governmental funds	\$	320,948
The change in net position reported for governmental activities in the Statement of Activities is different because:		
Government funds report capital outlays as expenditures. However on the Statement of Activities, depreciation expense is recognized to allocate the cost of these items over their estimated useful lives.		
Capital outlay	376,097	
Depreciation expense	<u>(780,909)</u>	(404,812)
Internal service funds are used by management to charge cost of certain activities to individual funds. The net loss of the internal service fund is reported within the governmental activities.		
		(24,504)
The issuance of long-term deb provides current financial resources to governmental funds, while the repayment of of the principal of the long-term debt consumes current financial resources of governmental funds. Neither transaction, however, has any effect on net position This is the amount of principal paid on long-term debt.		
Principal repayments		59,650
The governmental fund statements do not reflect the increase in long-term liabilities that are not to be paid with current financial resources. This is the amount of increase in the landfill closure liability.		
		(35,896)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. This is the change in:		
Accrued interest payable		(4,258)
Accrued leave		(13,416)
Proportionate share of the collective net pension liability		154,762
Changes in deferred outflows and inflows of resources are the result of timing differences in the actuarial report and adjustments to reflect employer and non-employer contributions based on the measurement date of the liability.		
		<u>(354,657)</u>
Change in net position of governmental activities	\$	<u><u>(302,183)</u></u>

See accompanying notes to basic financial statements.

CITY OF KING COVE, ALASKA

General Fund

Statement of Revenues, Expenditures and
Changes in Fund Balance - Original and Final Budget and Actual

Year Ended June 30, 2017

	Budget		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Taxes	\$ 1,900,000	1,700,000	1,847,055	147,055
Intergovernmental:				
Aleutians East Borough	1,000,000	600,000	489,536	(110,464)
Federal sources	50,000	50,000	74,469	24,469
State sources	652,270	566,721	541,428	(25,293)
Charges for services	23,100	58,000	76,860	18,860
Other	-	15,781	12,095	(3,686)
Total revenues	<u>3,625,370</u>	<u>2,990,502</u>	<u>3,041,443</u>	<u>50,941</u>
Expenditures:				
General government	655,091	653,836	645,677	8,159
Public safety	589,354	614,604	623,078	(8,474)
Public works	508,335	519,616	445,183	74,433
Community services	135,328	154,444	144,401	10,043
Other	257,100	294,539	299,617	(5,078)
Total expenditures	<u>2,145,208</u>	<u>2,237,039</u>	<u>2,157,956</u>	<u>79,083</u>
Excess of revenues over expenditures	1,480,162	753,463	883,487	130,024
Other financing sources (uses):				
Transfers in	60,000	60,000	60,000	-
Transfers out	<u>(1,142,750)</u>	<u>(1,165,400)</u>	<u>(1,165,400)</u>	<u>-</u>
Total other financing sources (uses)	<u>(1,082,750)</u>	<u>(1,105,400)</u>	<u>(1,105,400)</u>	<u>-</u>
Net change in fund balance	\$ <u>397,412</u>	<u>(351,937)</u>	(221,913)	<u>130,024</u>
Beginning fund balances			<u>2,280,652</u>	
Ending fund balances			\$ <u>2,058,739</u>	

See accompanying notes to basic financial statements.

CITY OF KING COVE, ALASKA

Water and Sewer Special Revenue Fund

Statement of Revenues, Expenditures and
Changes in Fund Balance (Deficit) - Original and Final Budget and Actual

Year Ended June 30, 2017

	Budget		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Charges for services	\$ 492,100	442,100	427,222	(14,878)
Intergovernmental - state sources	20,400	6,400	5,890	(510)
Total revenues	<u>512,500</u>	<u>448,500</u>	<u>433,112</u>	<u>(15,388)</u>
Expenditures:				
Current:				
Water	247,902	248,041	260,762	(12,721)
Sewer	76,429	74,986	61,987	12,999
Debt service:				
Principal	33,000	33,000	42,175	(9,175)
Interest	59,000	59,000	49,893	9,107
Total expenditures	<u>416,331</u>	<u>415,027</u>	<u>414,817</u>	<u>210</u>
Excess of revenues over expenditures	96,169	33,473	18,295	(15,178)
Other financing sources - transfers in	<u>20,000</u>	<u>20,000</u>	<u>20,000</u>	<u>-</u>
Net change in fund balance	\$ <u>116,169</u>	<u>53,473</u>	38,295	<u>(15,178)</u>
Beginning fund balance (deficit)			<u>(334,776)</u>	
Ending fund balance (deficit)			\$ <u>(296,481)</u>	

See accompanying notes to basic financial statements.

CITY OF KING COVE, ALASKA

Proprietary Funds

Statement of Net Position

June 30, 2017

	Enterprise Funds		Total Enterprise Funds	Internal Service Fund
<u>Assets and Deferred Outflows of Resources</u>	Electric	Harbor and Port	Funds	City Fuel
Current assets:				
Accounts receivable	\$ 59,209	104,626	163,835	-
Allowance for doubtful accounts	(1,960)	(3,139)	(5,099)	-
Net accounts receivable	57,249	101,487	158,736	-
Grants receivable	50,454	-	50,454	-
Inventories	-	-	-	96,731
Prepaid expenses	15,000	-	15,000	-
Total current assets	122,703	101,487	224,190	96,731
Noncurrent assets:				
Restricted cash - bond reserves	166,203	108,578	274,781	-
Property, plant and equipment:				
Construction in progress	6,116,781	14,200	6,130,981	-
Land	48,372	-	48,372	-
Infrastructure	3,955,382	21,720,359	25,675,741	871,489
Improvements	723,045	-	723,045	-
Buildings	2,203,494	371,987	2,575,481	-
Equipment	5,009,193	878,987	5,888,180	-
Total property, plant and equipment	18,056,267	22,985,533	41,041,800	871,489
Less accumulated depreciation	(6,529,720)	(8,014,199)	(14,543,919)	(392,167)
Net property, plant and equipment	11,526,547	14,971,334	26,497,881	479,322
Total noncurrent assets	11,692,750	15,079,912	26,772,662	479,322
Deferred outflows of resources -				
Pension deferrals	57,206	31,632	88,838	-
Total assets and deferred outflows of resources	\$ 11,872,659	15,213,031	27,085,690	576,053
<u>Liabilities, Deferred Inflows of Resources and Net Position</u>				
Current liabilities:				
Accounts payable	\$ 18,257	1,553	19,810	-
Accrued payroll and related liabilities	10,659	12,607	23,266	-
Customer deposits	6,188	-	6,188	-
Accrued interest payable	15,068	15,861	30,929	-
Accrued leave	8,226	9,297	17,523	-
Current portion of revenue bonds	120,000	60,000	180,000	-
Total current liabilities	178,398	99,318	277,716	-
Noncurrent liabilities:				
Advance from other funds	1,261,921	66,914	1,328,835	44,132
Revenue bonds	1,755,000	885,000	2,640,000	-
Unamortized bond premium	166,473	15,888	182,361	-
Net pension liability	321,759	252,937	574,696	-
Total noncurrent liabilities	3,505,153	1,220,739	4,725,892	44,132
Deferred inflows of resources -				
Pension deferrals	41,009	48,208	89,217	-
Net position:				
Net investment in capital assets	9,485,074	14,010,446	23,495,520	479,322
Unrestricted	(1,336,975)	(165,680)	(1,502,655)	52,599
Total net position	8,148,099	13,844,766	21,992,865	531,921
Total liabilities, deferred inflows of resources and net position	\$ 11,872,659	15,213,031	27,085,690	576,053

See accompanying notes to basic financial statements.

CITY OF KING COVE, ALASKA

Proprietary Funds

Statement of Revenues, Expenses and Changes in Net Position

Year Ended June 30, 2017

	Enterprise Funds			Internal Service Fund
	Electric	Harbor and Port	Total Enterprise Funds	City Fuel
Operating revenues - charges for services	\$ 1,179,349	386,113	1,565,462	457,312
Operating expenses:				
Salaries and benefits	284,540	342,919	627,459	18,556
Other purchased services and supplies	500,288	102,477	602,765	419,685
Depreciation	325,553	478,348	803,901	43,575
Total operating expenses	1,110,381	923,744	2,034,125	481,816
Income (loss) from operations	68,968	(537,631)	(468,663)	(24,504)
Nonoperating revenues (expenses):				
Interest expense	(74,115)	(47,700)	(121,815)	-
Grant revenue	50,454	-	50,454	-
Bond issuance costs	-	(700)	(700)	-
Loss on disposition of capital assets	-	(3,000)	(3,000)	-
Senior power subsidy	(52,444)	-	(52,444)	-
Interest rate subsidy	-	14,090	14,090	-
State PERS relief	6,173	7,647	13,820	-
Net nonoperating revenues (expenses)	(69,932)	(29,663)	(99,595)	-
Income (loss) before transfers	(964)	(567,294)	(568,258)	(24,504)
Other financing sources (uses):				
Transfers in	-	315,400	315,400	-
Transfers out	(90,000)	(20,000)	(110,000)	-
Total other financing sources (uses)	(90,000)	295,400	205,400	-
Change in net position	(90,964)	(271,894)	(362,858)	(24,504)
Net position, beginning of year	8,239,063	14,116,660	22,355,723	556,425
Net position, end of year	\$ 8,148,099	13,844,766	21,992,865	531,921

See accompanying notes to basic financial statements.

CITY OF KING COVE, ALASKA

Proprietary Funds

Statement of Cash Flows

Year Ended June 30, 2017

	Enterprise Funds		Total Enterprise Funds	Internal Service Fund
	Electric	Harbor and Port	Funds	City Fuel
Cash flows from operating activities:				
Receipts from customers and users	\$ 1,142,423	376,282	1,518,705	457,312
Payments to suppliers	(550,669)	(103,120)	(653,789)	(392,704)
Payments to employees	(235,668)	(282,566)	(518,234)	(18,637)
Net cash flows provided (used) by operating activities	356,086	(9,404)	346,682	45,971
Cash flows from noncapital financing activities:				
Senior power subsidy	(52,444)	-	(52,444)	-
Increase (decrease) in advance from other funds	508,666	(133,298)	375,368	(25,812)
Fuel loan proceeds	-	-	-	(20,159)
Interest rate subsidy	-	14,090	14,090	-
Transfers in	-	315,400	315,400	-
Transfers out	(90,000)	(20,000)	(110,000)	-
Net cash flows provided (used) by noncapital financing activities	366,222	176,192	542,414	(45,971)
Cash flows from capital and related financing activities:				
Bond issuance costs	-	(700)	(700)	-
Purchase of capital assets	(1,038,776)	(61,577)	(1,100,353)	-
Capital contributions received	526,095	-	526,095	-
Principal payments on long-term debt	(115,000)	(55,000)	(170,000)	-
Interest payments on long-term debt	(94,237)	(49,435)	(143,672)	-
Net cash flows (used) by capital and related financing activities	(721,918)	(166,712)	(888,630)	-
Net increase in cash and cash equivalents	390	76	466	-
Beginning cash and cash equivalents	165,813	108,502	274,315	-
Ending cash and cash equivalents	\$ 166,203	108,578	274,781	-
Reconciliation of loss from operations to net cash provided (used) by operating activities:				
Income (loss) from operations	\$ 68,968	(537,631)	(468,663)	(24,504)
Adjustments to reconcile loss from operations to net cash flows from operating activities:				
Depreciation	325,553	478,348	803,901	43,575
Pension expense	47,168	58,429	105,597	-
(Increase) decrease in assets:				
Accounts receivable (net)	(35,580)	(9,831)	(45,411)	-
Inventories	-	-	-	26,981
Prepaid expenses	(15,000)	-	(15,000)	-
Increase (decrease) in liabilities:				
Accounts payable	(35,381)	(643)	(36,024)	-
Accrued payroll and related liabilities	492	283	775	(81)
Customer deposits	(1,346)	-	(1,346)	-
Accrued leave	1,212	1,641	2,853	-
Net cash flows provided (used) by operating activities	\$ 356,086	(9,404)	346,682	45,971

See accompanying notes to basic financial statements.

CITY OF KING COVE, ALASKA

Notes to the Basic Financial Statements

Year Ended June 30, 2017

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of King Cove was incorporated in 1949 under the laws of the State of Alaska as a first-class city. The City operates under a council-administrator form of government and provides a full range of services to its citizens including public safety, streets, health and social services, electric, water and sewer, boat harbor, community projects, and general administration.

The financial statements included in this report are for the City of King Cove only. There are no component units for which the City of King Cove is financially accountable, nor do any special financial relationships exist between the City and any other entity.

The accounting policies of the City of King Cove conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the City. In general, the effect of inter-fund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely primarily on fees and charges to external parties.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) fees, fines and charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

CITY OF KING COVE, ALASKA

Notes to the Basic Financial Statements, Continued

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days after year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensate absences are recorded only to the extent they have matured.

Sales and business impact taxes, charges for services, and investment income associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when received by the government.

The City reports the following major funds:

Major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be reported in another fund.

The *Water and Sewer Special Revenue Fund* accounts for the operation of the water and sewer system.

General Capital Projects Fund accounts for funds used to finance general capital activities of the City.

Major proprietary funds:

The *Electric Enterprise Fund* is used to account for the operations of the electric utility.

The *Harbor and Port Enterprise Fund* is used to account for the operations of the harbor and port.

The *City Fuel Sales Internal Service Fund* is used to account for fuel purchases and sales which is predominately sold to the other proprietary funds.

CITY OF KING COVE, ALASKA

Notes to the Basic Financial Statements, Continued

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are allocated administration fees and charges between the enterprise funds and the various other funds and departments. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. In addition, general revenues include all axes, investment income, and State entitlement revenues.

Enterprise funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for the enterprise funds include the costs of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Central Treasury

A central treasury is used to account for cash from all funds of the City to maximize interest income.

E. Cash and Cash Equivalents

For purposes of the statement of cash flows, the proprietary funds consider all cash accounts to be cash and cash equivalents. The central treasury, which holds cash and investments, is used essentially as a cash management pool by each fund.

F. Inventories

Inventories are valued at cost (first-in, first-out). The cost is recorded as an expenditure or expense at the time individual inventory items are consumed.

CITY OF KING COVE, ALASKA

Notes to the Basic Financial Statements, Continued

G. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to as either “due to / from other funds” (i.e., the current portion of interfund loans) or “advances to / from other funds” (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as “due to / from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

H. Grants and Other Intergovernmental Revenues

In applying the measurable and available concepts to grants and intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, monies must be expended on the specific purpose or project before any amounts are considered “earned”; therefore, revenues are recognized based upon expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the measurable and available criteria are met.

I. Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers. Operating subsidies are also recorded as transfers.

J. Compensated Absences

The City allows employees to accumulate earned but unused vacation and sick leave benefits. All vacation pay is accrued when earned in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental fund financial statements only if they have matured (e.g. the employee has terminated employment).

CITY OF KING COVE, ALASKA

Notes to the Basic Financial Statements, Continued

K. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, etc.) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. As a phase 3 government for GASB Statement 34 purposes, the City records additions to infrastructure capital assets (e.g. roads and streets) prospectively from the GASB Statement 34 implementation date, which was June 30, 2004. Capital assets are defined by the City as assets with an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the useful life of the asset are not capitalized.

Property, plant, and equipment of the City is depreciated using the straight line method over the following estimated useful lives:

Buildings	20-50 years
Improvements other than buildings	20-50 years
Service Lines	20 years
Machinery and equipment	3-20 years

L. Long-Term Debt

In the government-wide and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, or business-type activities statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method.

M. Fund Balances

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of the resources.

Nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form- prepaid items or inventories; or (b) legally or contractually required to be maintained intact.

Restricted fund balance classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

CITY OF KING COVE, ALASKA

Notes to the Basic Financial Statements, Continued

Committed fund balance amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions or ordinances of the City Council—the City's highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the City Council removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned fund balance classification reflects the amounts constrained by the City's "intent" to be used for specific purposes, but are neither restricted nor committed. The City Council has the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed.

Unassigned fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When both restricted and unrestricted resources are available for use, it is the City's policy to use externally restricted resources first, then unrestricted resources—committed, assigned, and unassigned—in order as needed.

N. Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for expenditures are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General Fund and Special Revenue Funds. Any encumbrances outstanding at year end are reported as appropriate constraints of fund balances if they meet the definitions and criteria as outlined above.

O. Unearned Grant Revenue

Amounts received from grantor agencies, which are restricted as to use and have not been expended for the intended use are shown as unearned revenue.

CITY OF KING COVE, ALASKA

Notes to the Basic Financial Statements, Continued

P. Deferred Inflows/Outflows of Resources

The City follows the provisions of GASB Statement number 63, where applicable. Deferred outflows of resources represent the consumption of the government's net position or fund balance that is applicable to a future reporting period. Deferred inflow of resources represents the acquisition of net position or fund balance that is applicable to a future reporting period. Revenues that have been earned but are not yet available in the governmental funds are now reported as deferred inflows.

Q. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public Employees' Retirement System (PERS) and additions to/from PERS's fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms, investments are reported at fair value.

R. Fair Value of Financial Instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following financial instruments are recorded at fair value or at amounts that approximate fair value: (1) cash and cash equivalents, (2) receivables, net, (3) certain other current assets, (4) accounts payable, and (5) other current liabilities. The carrying amounts reported in the balance sheet and Statement of Net Position for the above financial instruments closely approximates their fair value due to the short-term nature of these assets and liabilities, except for the City's investments. The carrying amount of the City's investments are determined based on quoted market prices.

The carrying amount of notes receivable and notes payable approximates fair value for those financial instruments with interest at variable rates, as those rates approximate current market rates for notes with similar maturities and credit quality.

S. Comparative Data

Comparative data for the prior year have been presented in some of the accompanying financial statements in order to provide an understanding of changes in the City's financial operations.

CITY OF KING COVE, ALASKA

Notes to the Basic Financial Statements, Continued

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in the financial statements.

1. Prior to May 1, the City Administrator submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to June 30, the budget is legally enacted through passage of an ordinance.
4. The City Administrator is authorized to transfer budgeted amounts within departments; however, any revisions that alter the total expenditures of any fund or department within a fund must be approved by the City Council.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund and Special Revenue Funds. Appropriations for these funds lapse at year end to the extent they have not been expended or encumbered.
6. Budgets for governmental fund types are adopted on a basis consistent with accounting principles generally accepted in the United States of America.

B. Deficits

The following funds had deficit positions in fund balance as of June 30, 2017:

Special Revenue Funds:

Water and Sewer	\$ (296,481)
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In addition the following proprietary funds had deficit equity in the unrestricted category:

Electric Enterprise Fund	\$ (1,336,975)
Harbor and Port Enterprise Fund	(165,680)

III. CASH AND CASH EQUIVALENTS

Except for the Permanent Fund, all cash is maintained in a central treasury and is available for use by all funds. Each fund's portion of the central treasury is displayed on the balance sheet as "cash and cash equivalents" or in the case of "negative cash," is included in "due to other funds" or "advances to other funds." All of the City's cash is held in the form of demand accounts including checking, savings, short-term certificates of deposit, and overnight repurchase agreements held by commercial banks. "Pooled investments" are entirely comprised of money-market cash equivalents.

CITY OF KING COVE, ALASKA

Notes to the Basic Financial Statements, Continued

Investment policy

The investment policy authorizes the City to invest in certificates of deposit, U.S. Treasury securities, government bonds and notes, money markets, mutual funds, and an investment pool authorized by Alaska Statutes. Investments are carried at fair value.

Interest rate risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value changes in market interest rates.

Credit risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Pooled investments are invested with the Alaska Municipal League Investment Pool, Inc. (AMLIP). The AMLIP is an external investment pool which is rated AAA for credit risk purposes. Alaska Statute 37.23 establishes regulatory oversight of the Pool. The law sets forth numerous requirements regarding authorized investments and reporting. The share value of investments in the AMLIP is approximately equal to fair value. To obtain a copy of AMLIP's financial statements contact Key Trust of Alaska at 101 West Benson Blvd., Room 302, Anchorage, Alaska 99503.

Custodial credit risk

Custodial credit risk is that in the event of a bank failure, the City's deposits may not be returned to it. To limit credit risk, City policy requires that all deposits be insured or covered by collateralization agreements.

IV. INVESTMENT IN SOUTHWEST GOVERNMENTS, LLC

The City purchased a 10 percent ownership in Southwest Governments, LLC, an investment company formed to buy an office building in Anchorage, Alaska. The office building was purchased in May 2002 and is currently rented to outside parties, including the group that owns Southwest Governments, LLC. The City's investment in Southwest Governments, LLC, is recorded on the cost method.

CITY OF KING COVE, ALASKA

Notes to the Basic Financial Statements, Continued

V. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017 was as follows:

Governmental Activities

	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Capital assets not being depreciated:					
Land	\$ 420,390	-	-	-	420,390
Construction in progress	239,733	242,462	-	-	482,195
Total	<u>660,123</u>	<u>242,462</u>	<u>-</u>	<u>-</u>	<u>902,585</u>
Capital assets being depreciated:					
Buildings	4,239,407	63,774	-	-	4,303,181
Improvements	22,584,412	-	-	(871,489)	21,712,923
Equipment	1,572,717	69,861	(16,840)	-	1,625,738
Total	<u>28,396,536</u>	<u>133,635</u>	<u>(16,840)</u>	<u>(871,489)</u>	<u>27,641,842</u>
Less accumulated depreciation:					
Buildings	2,029,244	116,463	-	-	2,145,707
Improvements	5,418,429	580,042	-	(348,592)	5,649,879
Equipment	952,085	84,404	(16,840)	-	1,019,649
Total	<u>8,399,758</u>	<u>780,909</u>	<u>(16,840)</u>	<u>(348,592)</u>	<u>8,815,235</u>
Total assets being depreciated, net	<u>19,996,778</u>	<u>(647,274)</u>	<u>-</u>	<u>(522,897)</u>	<u>18,826,607</u>
Total governmental activities, net	<u>\$ 20,656,901</u>	<u>(404,812)</u>	<u>-</u>	<u>(522,897)</u>	<u>19,729,192</u>

During 2017 \$871,489 of equipment and \$348,592 of accumulated depreciation were transferred from governmental activities to business-type activities in the city fuel internal service fund.

CITY OF KING COVE, ALASKA

Notes to the Basic Financial Statements, Continued

Business-Type Activities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Ending Balance</u>
Capital assets not being depreciated:					
Land	\$ 48,372	-	-	-	48,372
Construction in progress	5,078,005	1,052,976	-	-	6,130,981
Total	<u>5,126,377</u>	<u>1,052,976</u>	<u>-</u>	<u>-</u>	<u>6,179,353</u>
Capital assets being depreciated:					
Buildings	2,559,354	16,127	-	-	2,575,481
Infrastructure and improvements	26,398,786	-	-	871,489	27,270,275
Equipment	5,941,330	31,250	(84,400)	-	5,888,180
Total	<u>34,899,470</u>	<u>47,377</u>	<u>(84,400)</u>	<u>871,489</u>	<u>35,733,936</u>
Less accumulated depreciation:					
Buildings	1,308,375	68,712	-	-	1,377,087
Infrastructure and improvements	9,400,501	583,536	-	348,592	10,332,629
Equipment	3,112,542	195,228	(81,400)	-	3,226,370
Total	<u>13,821,418</u>	<u>847,476</u>	<u>(81,400)</u>	<u>348,592</u>	<u>14,936,086</u>
Total assets being depreciated, net	<u>21,078,052</u>	<u>(800,099)</u>	<u>(3,000)</u>	<u>522,897</u>	<u>20,797,850</u>
Total business-type activities, net	<u>\$ 26,204,429</u>	<u>252,877</u>	<u>(3,000)</u>	<u>522,897</u>	<u>26,977,203</u>

Ending balances include \$871,489 equipment and \$348,592 accumulated depreciation that were transferred from the governmental activities to the city fuel internal service fund.

Depreciation expense for 2017 was charged to functions of the City as follows:

Governmental activities:

Administration	\$ 9,244
Public safety	41,711
Public works	412,158
Community services	75,016
Water and sewer	217,992
Solid waste	24,788
Total	<u>\$ 780,909</u>

Business-type activities:

Electric	325,553
Harbor and Port	478,348
City Fuel Internal Service Fund	43,575
Total business-type activities	<u>\$ 847,476</u>

CITY OF KING COVE, ALASKA

Notes to the Basic Financial Statements, Continued

VI. INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS

A schedule of interfund balances, advances and transfers for the year ended June 30, 2017, follows:

Advances to other funds -

These are longer term and repayment terms have not been established.

Advance from General Fund to:

City Fuel Internal Service Fund	\$ 44,132
Electric Enterprise Fund	1,261,921
Harbor and Port Enterprise Fund	<u>66,914</u>

Total advances to other funds	\$ <u>1,372,967</u>
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Interfund receivables and payables are shown as "Due from other funds" and "Due to other funds" in each of the individual funds. The composition of interfund balance as of June 30, 2017, is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Water and Sewer Special Revenue Fund	\$ 351,063
General Fund	Nonmajor Funds	50,880
General Capital Projects Funds	General Fund	509,089
Nonmajor Funds	General Fund	<u>964,052</u>
		\$ <u>1,875,084</u>

Interfund transfers for the year ended June 30, 2017 consisted of the following:

Transfers in						
	General Fund	Water and Sewer Special Revenue Fund	Nonmajor Funds	Harbor and Port Enterprise Funds	General Capital Projects	Total
Transfers out						
General Fund	\$ -	20,000	135,000	285,400	725,000	1,165,400
General Capital Projects	-	-	-	30,000	-	30,000
Electric Enterprise Fund	60,000	-	30,000	-	-	90,000
Harbor and Port Enterprise Fund	-	-	20,000	-	-	20,000
	<u>\$ 60,000</u>	<u>20,000</u>	<u>185,000</u>	<u>315,400</u>	<u>725,000</u>	<u>1,305,400</u>

Transfers were made to fund operations and capital projects.

CITY OF KING COVE, ALASKA

Notes to the Basic Financial Statements, Continued

VII. LONG – TERM DEBT

Governmental Activities	Balance July 1, 2016	Additions	Retired	Balance June 30, 2017	Due Within One Year
\$1,375,000 USDA water project loan, due in semi-annual installments of \$37,300 including interest through March 2040; interest at 4.5%	\$ 1,069,495	-	27,175	1,042,320	28,412
\$300,000 Delta Creek water project loan, due in annual installments of \$15,000 plus interest through January 2027 interest at 1.5%	165,000	-	15,000	150,000	15,000
Wells Fargo Bank loan due in monthly installments of \$1,810 including interest through November 2018; Interest at 11.25%	45,542	-	17,475	28,067	19,568
Bulk Fuel loan for up to \$350,000, due in monthly installments of \$19,846 plus interest through July 2017. Interest at 3%.	20,159	-	20,159	-	-
Landfill closure costs	1,005,078	35,896	-	1,040,974	-
Accrued leave	119,433	80,358	66,943	132,848	-
Total governmental activities	\$ 2,424,707	116,254	146,752	2,394,209	62,980

CITY OF KING COVE, ALASKA

Notes to the Basic Financial Statements, Continued

	Balance July 1, 2016	Additions	Retired	Balance June 30, 2017	Due Within One Year
Business-type Activities					
\$1,235,000 Electric revenue bond, due in annual installments of \$110,000 to \$175,000 through 2039; Interest at 3.00% to 5.00%	\$ 1,010,000	-	115,000	895,000	120,000
\$980,000 Electric revenue bond, due in semi-annual installments of \$1,500 to \$76,500 through 2041; Interest at 4.00% to 5.25%	980,000	-	-	980,000	-
\$745,000 Harbor revenue bond, due in annual installments of \$30,000 to \$50,000 through 2030; Interest at 3.50% to 5.43%	600,000	-	30,000	570,000	35,000
\$400,000 Harbor revenue bond, due in annual installments of \$20,000 to \$35,000 through 2022; interest at 3.751% to 6.04%	400,000	-	25,000	375,000	25,000
Unamortized bond premium	203,118	-	20,757	182,361	-
Accrued leave	14,670	24,068	21,215	17,523	17,523
Total business-type activities	\$ <u>3,207,788</u>	<u>24,068</u>	<u>211,972</u>	<u>3,019,884</u>	<u>197,523</u>

In June 2014, the City issued revenue bonds to early retire \$834,889 in outstanding 1995 electric revenue bonds and to fund the Waterfall Creek hydroelectric project. The face value of the bonds was \$1,235,000 with a premium \$117,739. Interest varies from 3.0% to 5.0% until they are repaid in 2039.

CITY OF KING COVE, ALASKA

Notes to the Basic Financial Statements, Continued

The annual requirements to pay all general long-term debt outstanding (exclusive of accrued leave and landfill closure costs) as of June 30, 2017 are as follows:

Governmental Activities:

Year Ended June 30,	Water Loans			Wells Fargo Note	Total
	Principal	Interest	Total	Principal	Principal
2018	\$ 43,412	48,438	91,850	19,568	62,980
2019	44,705	46,920	91,625	8,499	53,204
2020	46,056	45,344	91,400	-	46,056
2021	47,470	43,705	91,175	-	47,470
2022	48,947	42,003	90,950	-	48,947
2023-2027	269,363	182,012	451,375	-	269,363
2028-2032	242,798	130,202	373,000	-	242,798
2033-2037	303,302	69,698	373,000	-	303,302
2038-2040	146,267	2,932	149,200	-	146,267
	<u>\$ 1,192,320</u>	<u>611,254</u>	<u>1,803,575</u>	<u>28,067</u>	<u>1,220,387</u>

Business-type activities

Year Ended June 30,	Electric Revenue Bonds				Harbor Revenue Bonds			
	Principal	Interest	Federal Subsidy	Total	Principal	Interest	Federal Subsidy	Total
2018	\$ 120,000	89,637	(7,717)	201,920	60,000	47,666	(17,926)	89,740
2019	125,000	83,638	(7,718)	200,920	60,000	45,241	(17,567)	87,674
2020	135,000	77,387	(7,717)	204,670	60,000	42,802	(17,173)	85,629
2021	45,000	70,013	(7,718)	107,295	60,000	40,163	(16,378)	83,785
2022	50,000	67,637	(7,367)	110,270	65,000	37,127	(15,130)	86,997
2023-2027	270,000	299,562	(31,588)	537,974	350,000	134,156	(54,655)	429,501
2028-2032	350,000	226,231	(22,330)	553,901	290,000	33,186	(13,666)	309,520
2033-2037	430,000	136,550	(12,180)	554,370	-	-	-	-
2038-2041	350,000	30,350	(1,610)	378,740	-	-	-	-
	<u>\$ 1,875,000</u>	<u>1,081,005</u>	<u>(105,945)</u>	<u>2,850,060</u>	<u>945,000</u>	<u>380,341</u>	<u>(152,495)</u>	<u>1,172,846</u>

The harbor revenue bonds and electric revenue bonds were issued pursuant to Economic Recovery Zone legislation as part of the American Recovery and Reinvestment Act. Terms of the legislation allow for the Internal Revenue Service to rebate a portion of interest paid. The rebate is subject to annual appropriation by Congress. The rebate is recorded as revenue only upon receipt in these financial statements.

CITY OF KING COVE, ALASKA

Notes to the Basic Financial Statements, Continued

VIII. MUNICIPAL LANDFILL CLOSURE AND POST-CLOSURE LIABILITY

State and federal laws and regulations require the City to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although closure and post-closure care costs will be paid only near or after the date the landfill stops accepting waste, generally accepted accounting principles require that the City report a portion of these closure and post-closure care costs each period based on landfill capacity used as of each balance sheet date.

The \$1,040,974 (an increase of \$35,896 from June 30, 2016) reported as landfill closure costs payable at June 30, 2017, represents the cumulative amount reported to date based on a study conducted several years ago. The final closure costs may vary significantly from the above estimate.

At June 30, 2017, the City has not reserved or designated any fund balance to fund the cost of closure and post closure monitoring, nor have any assets been restricted for this purpose.

IX. FUND BALANCES

Fund balances reported in the City's individual major funds and nonmajor funds in the aggregate on the governmental funds balance sheet is subject to the following constraints:

	General	Water and Sewer Special Revenue	General Capital Projects	Nonmajor Funds	Totals
Nonspendable:					
Long-term advances	\$ 1,372,967	-	-	-	1,372,967
Investment in Southwest Governments, LLC	118,136	-	-	-	118,136
Total nonspendable	1,491,103	-	-	-	1,491,103
Committed – Permanent Fund	-	-	-	1,340,164	1,340,164
Assigned:					
Solid Waste	-	-	-	88,239	88,239
General capital projects	-	-	485,052	-	485,052
Total assigned	-	-	485,052	88,239	573,291
Unassigned (deficit)	567,636	(296,481)	-	(51,708)	219,447
Total fund balances	\$ 2,058,739	(296,481)	485,052	1,376,695	3,624,005

CITY OF KING COVE, ALASKA

Notes to the Basic Financial Statements, Continued

X. EMPLOYEE RETIREMENT SYSTEM PLAN

The City follows *Governmental Accounting Standards Board (GASB) Codification P20*, Accounting for Pensions by State and Local Governmental Employees and *GASB Codification P50*, Accounting and Financial Reporting by Employers for Post-employment Benefits Other than Pensions. *GASB Codification P20* and *GASB Codification P50* establish uniform standards for the measurement, recognition and display of pension and other post-employment benefits other than pensions (healthcare) expenditures/expense and related liabilities, assets, note disclosure and applicable required supplementary information in the financial reports of state and local governmental employers.

All full-time employees and certain permanent part-time employees of the City participate in either the State of Alaska Public Employees' Retirement System (PERS). In addition to the pension plan the system also administers other post-employment benefit plans.

The system is governed by the Alaska Retirement Management Board. The benefit and contribution provisions are established by State law and may be amended only by the State legislature. The Administrator of the Plan is the Commissioner of Administration or the Commissioner's designee.

Summary of Significant Accounting Policies. The financial statements for PERS are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. The City's contributions are recognized when due and a formal commitment to provide the contributions has been made. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. All plan investments are reported at fair value.

PERS acts as the common investment and administrative agency for the following multiple-employer plans:

Plan Name	Type of Plan
Defined Benefit Pension Plan (DB)	Cost-sharing, Defined Benefit Pension
Defined Contribution Pension Plan (DC)	Defined Contribution Pension
Defined Benefit Other Postemployment Benefits (DB)	
Occupational Death and Disability Plan	Cost-sharing, Defined Benefits OPEB
Alaska Retiree Healthcare Trust Plan	Cost-sharing, Defined Benefits OPEB
Retiree Medical Plan	Cost-sharing, Defined Benefits OPEB
Defined Contribution Other Postemployment Benefits (DC)	
Healthcare Reimbursement Arrangement Plan	Defined Contribution OPEB

Other Postemployment Benefit Plans (OPBP)

Occupational Death and Disability Plan (DB)

The Occupational Death and Disability Plan provides death benefits for beneficiaries of plan participants and long-term disability benefits to all active members within the System.

CITY OF KING COVE, ALASKA

Notes to the Basic Financial Statements, Continued

Alaska Retiree Healthcare Trust Plan (DB)

Beginning July 1, 2007, the Alaska Retiree Healthcare Trust Plan (ARHCT), a Healthcare Trust Fund of the State, was established. The ARHCT is self-funded and provides major medical coverage to retirees of the System. The System retains the risk of loss of allowable claims for eligible members. The ARHCT began paying member healthcare claims on March 1, 2008. Prior to that, healthcare claims were paid for by the Retiree Health Fund (RHF).

Healthcare Reimbursement Arrangement Plan (DC)

The Healthcare Reimbursement Arrangement Plan was established to allow medical expenses to be reimbursed from individual savings accounts established for eligible participants.

Alaska Public Employee Retirement System (PERS) – Defined Benefit Plan (DB)

Plan Description. The City participates in the Alaska Public Employees' Retirement System (PERS), a cost sharing multiple employer defined benefit pension plan. PERS provides retirement benefits, disability and death benefits, and post-employment healthcare to plan members and beneficiaries. The Plan was established and is administered by the State of Alaska, Department of Administration. The Public Employee's Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for PERS. This report may be obtained from the system at Pouch C, Juneau, Alaska 99811 or online at <http://doa.alaska.gov/drb/pers>.

Pension Benefits. All tier employee benefits vest with five years of credited service. There are three tiers of employees based on entry date. Tier I employees enrolled prior to July 1, 1986 with five or more years of credited service are entitled to annual pension benefits beginning at normal retirement age 55 or early retirement age 50. For tier II and III employees enrolled after June 30, 1986, but before July 1, 2006, the normal and early retirement ages are 60 and 55, respectively. All tier employees with 30 or more years of credited service may retire at any age and receive a normal benefit.

The PERS defined benefit is closed to new hires enrolled on or after July 1, 2006. New hires after this date participate in the PERS defined contribution plan (DC) described later in these notes.

Currently there are 155 employers participating in PERS, including the State of Alaska and 154 political subdivisions and public organizations.

Retirement benefits are calculated by multiplying the average monthly compensation (AMC) times credited PERS service times the percentage multiplier. The AMC is determined by averaging the salaries earned during the five highest (three highest for Police/Fire members or members hired prior to July 1, 1996) consecutive payroll years. Members must earn at least 115 days of credit in the last year worked to include it in the AMC calculation. The PERS pays a minimum benefit of \$25 per month for each year of service when the calculated benefit is less.

The percentage multipliers for police/fire personnel are 2% for the first ten years of service and 2.5% for all service over 10 years. The percentage multipliers for all other participants are 2% for the first ten years, 2.25% for the next ten years, and 2.5% for all remaining service earned on or after July 1, 1986. All service before that date is calculated at 2%.

CITY OF KING COVE, ALASKA

Notes to the Basic Financial Statements, Continued

Post-employment healthcare benefits are provided without cost to all members first enrolled before July 1, 1986. Members first enrolled after June 30, 1986, but before July 1, 2006 and who have not reached age 60 may elect to pay for major medical benefits.

Post Retirement Pension Adjustments. Post retirement pension adjustments (PRPAs) are granted annually to eligible benefit recipients when the consumer price index (CPI) increases during the preceding calendar year. PRPAs are calculated by multiplying the recipient's base benefit, including past PRPAs, times:

- (a) 75% of the CPI increase in the preceding calendar year or 9%, whichever is less, if the recipient is at least 65 or on PERS disability; or
- (b) 50% of the CPI increase in the preceding calendar year or 6%, whichever is less, if the recipient is at least 60, or has been receiving benefits for at least five years.

Ad hoc PRPAs, up to a maximum of 4%, may be granted to eligible recipients who first entered the PERS before July 1, 1986, if the CPI increases and the financial condition of the fund will permit an increase. In a year where an ad hoc PRPA is granted, eligible recipients will receive the higher of the two calculations.

Funding Policy. In April 2008 the Alaska Legislature passed legislation which statutorily capped the employer contribution, established a state funded "on-behalf" contribution, and required that employer contributions be calculated against all PERS eligible wages, including wages paid to participants of the PERS Tier IV defined contribution plan (DC) described later in these footnotes. The state legislature capped the rate at 22%, with the State contributing an on-behalf payment for the difference between the actuarial contribution and the cap.

Salary Floor. During the 25th legislation session, Senate Bill 125 passed, which established a June 30, 2008 salary floor under AS 39.35.255(a)(2). The salary floor is the total base salaries paid by an employer to active employees of the system as of the fiscal year ending June 30, 2008. The statute requires the Division of Retirement and Benefits (Division) to collect employer contributions at a minimum based on FY 2008 base salaries.

Termination Costs. If the City decides to terminate coverage for a department, group, or other classification of members, even if that termination results from the decision to divest of a particular City function, all affected employees in that department, group or other classification of members become immediately vested in the plan. The City must pay to have a termination study completed. The purpose of the study is to calculate the City's one-time termination costs. The costs represent the amount necessary to fully fund the costs of plan members who become vested through this process and for other changes in actuarial assumptions, such as, earlier than expected retirement, that arise from the act of termination of coverage. The City must pay a lump sum within 60 days of termination or arrange a payment plan that is acceptable to the PERS Administrator. For fiscal year 2017 the past service rate is 16.02%.

Employee Contribution Rate. The City PERS active members are required to contribute 6.75% (4.59% pension costs and 2.16% OPEB) and non-teacher City employees are required to contribute 9.60% (6.53% pension and 3.07% OPEB) of their annual covered salary.

CITY OF KING COVE, ALASKA

Notes to the Basic Financial Statements, Continued

Employer and Other Contribution Rates. There are several contribution rates associated with the pension and healthcare contributions and related liabilities. These amounts are calculated on an annual basis.

Employer Effective Rate: This is the actual employer pay-in rate. Under current legislation, this rate is statutorily capped at 22% (14.96% pension costs and 7.04% OPEB) of eligible wages, subject to the salary floor, and other termination costs as described above. This 22% rate is calculated on all PERS participating wages, including those wages attributable to employees in the defined benefit plan.

ARM Board Adopted Rate: This is the rate formally adopted by the Alaska Retirement Management Board. This rate is actuarially determined and used to calculate annual Plan funding requirements, without regard to the statutory rate cap or the GASB accounting rate. This rate is 26.14% (17.78% pension and 8.36% OPEB). Prior to July 1, 2015, there were no constraints or restrictions on the actuarial cost method or other assumptions used in the ARM Board valuation. Effective July 1, 2015, the Legislature requires the ARM Board to adopt employer contribution rates for past service liabilities using a level percent of pay method over a closed 25 year term which ends in 2039. This will result in lower ARM Board Rates in future years.

On-behalf Contribution Rate: This is the rate paid in by the State as an on-behalf payment as mandated under current statute. Under state law, subject to annual appropriation, the state will contribute an on-behalf payment into the plan in an amount equal to the difference between the ARM Board Rate and the Employer Effective Rate. As a result, the On-behalf Contribution Rate for 2017 is 4.14% (2.82% pension and 1.32% OPEB). On-behalf contribution amounts have been recognized in these financial statements as both revenue and expenditures.

GASB Rate: This is the rate used to determine the long-term pension and healthcare liability for plan accounting purposes. Certain actuarial methods and assumptions for this rate calculation are mandated by the *Governmental Accounting Standards Board* (GASB). Medicare Part D subsidies are not reflected in this rate. The rate uses an 8% pension discount rate and a 4.30% healthcare discount rate. The current rate is 83.90% (27.26% pension and 56.64% OPEB).

Employer contributions for the years ended June 30, 2017, 2016 and 2015 are as follows:

		Pensions (DB)	Other Post-Employment Benefits (DB)	Total
2017	\$	78,471	36,928	115,399
2016		83,610	55,858	139,468
2015		95,878	72,147	168,025

The defined benefit unfunded liability (DBUL) presented under the defined contribution plan includes employer contributions of \$39,529 (pension) and \$18,602 (OPEB).

CITY OF KING COVE, ALASKA

Notes to the Basic Financial Statements, Continued

For the year ended June 30, 2017 the State of Alaska contributed \$43,920 (100% pension cost) on-behalf of the City, which has been recorded in the fund financial statement under the modified-accrual basis of accounting. In the government-wide financial statements the on-behalf has been adjusted as of the measurement date June 30, 2016 to a total of \$37,574 , to represent the pension expense attributable to the State under the full accrual basis of accounting.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: At June 30, 2017, the City reported a liability that reflected a reduction for State pension support provided to the City. The amount recognized by the City as its proportionate share of net pension liability, the related State support, and the total portion of the net pension liability that was associated with the City were as follows:

City's proportionate share of the net pension liability	\$	2,185,988
State's proportionate share of the net pension liability		<u>278,734</u>
Total	\$	<u>2,464,722</u>

\$1,611,292 of the net pension liability is reported in the governmental activities and \$574,696 is reported in the business-type activities.

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the present value of contributions for FY2018 through FY2039, as determined by projections based on the June 30, 2015 valuation. At June 30, 2017, the City's proportion was 0.0391%, which is a decrease of 0.0106% from its proportion measured as of June 30, 2016.

Based on the measurement date of June 30, 2016, the City recognized pension expense of \$332,247 for the year ended June 30, 2017. At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 201	24,367
Changes of assumptions	10,082	
Net difference between projected and actual earnings on pension plan investments	214,872	
Changes in proportion and differences between City contributions and proportionate share of contributions	36,037	265,568
City contributions subsequent to the measurement date	118,000	
Total	\$ <u>379,192</u>	<u>289,935</u>

CITY OF KING COVE, ALASKA

Notes to the Basic Financial Statements, Continued

\$118,000 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	
2018	\$ (182,102)
2019	8,797
2020	87,840
2021	56,722
Total	\$ (28,743)

For the year ended June 30, 2017, the City recognized \$118,701 of amortization of the net deferred outflows and inflows of resources.

Actuarial Assumptions: The total pension liability in the June 30, 2016 (latest available) actuarial valuation was determined by an actuarial valuation as of June 30, 2015, which was rolled forward to June 30, 2016.

Investment return / discount rate	8% per year (geometric), compounded annually, net of expenses
Salary scale	Inflation – 3.12% per year Productivity – 0.50% per year
Payroll growth	3.62% per year (inflation + productivity)
Total inflation	Total inflation as measured by the Consumer Price Index for urban and clerical workers from Anchorage is assumed to increase 3.12% annually.
Mortality (Pre-termination)	Based upon 2010-2013 actual mortality experience. 60% of male rates and 65% of female rates of post termination mortality rates. Deaths are assumed to be occupational 70% of the time for peace officers, and firefighters, 50% of the time for others.
Mortality (Post-termination)	96% of all rates of the RP-2000 combined mortality table, 2000 base year projected to 2018.
Total turnover	Based upon the 2010-2013 actual withdrawal experience.

CITY OF KING COVE, ALASKA

Notes to the Basic Financial Statements, Continued

Disability	Incidence rates based on 2010-2013 actual experience. Post-disability mortality in accordance with the RP-2000 Disabled Retiree Mortality Table. Disabilities are assumed to be occupational 70% of the time for peace officers / firefighters, 50% of the time for others.
Retirement	Retirement rates based upon the 2010-2013 actual experience. Deferred vested members are assumed to retire at their earliest unreduced retirement date for others. For peace officers/firefighters, Tier 1 deferred vested members are assumed to retire at age 55 and Tiers 2 and 3 deferred vested members are assumed to retire at age 60.
Marriage and age difference	Wives are assumed to be three years younger than husbands. For others, 75% of male members and 70% of female members are assumed to be married. For peace officers/firefighters, 85% of male members and 60% female members are assumed to be married.

The long-term expected rate of return on pension plan investments was determined using the building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and adding expected inflation. The best estimates of arithmetic real rates of return for each major asset class are summarized below:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	5.35%
Global Equity (non-U.S.)	5.55%
Private Equity	6.25%
Fixed Income	0.80%
Real Estate	3.65%
Alternative Equity	4.70%

Discount Rate: The discount rate used to measure the total pension liability was 8.00%. The projection of the cash flows used to determine the discount rate assumed that Employer and State contributions will continue to follow the current funding policy, which meets State statutes. Based on those assumptions, the pension plan's fiduciary net pension was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

CITY OF KING COVE, ALASKA

Notes to the Basic Financial Statements, Continued

Sensitivity of the Net Pension Liability to Changes in the Discount Rate: The following presents the net pension liability of the plan calculated using the discount rate of 8%, as well as what the Plans' net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7%) or 1-percentage-point higher (9%) than the current rate:

	1% Decrease (7%)	Current Rate (8%)	1% Increase (9%)
Net pension liability	\$ <u>2,815,442</u>	<u>2,185,988</u>	<u>1,655,073</u>

Alaska Public Employee Retirement System (PERS) – Defined Contribution Plan (DC)

Plan Description and Funding Requirements. Public Employers in the State of Alaska have a defined contribution retirement plan (PERS Tier IV) for new hires first enrolled on or after July 1, 2006. This Plan is administered by the State of Alaska, Department of Administration in conjunction with the defined benefit plan noted above. The Administrator of the Plan is the Commissioner of Administration or the Commissioner's designee. Plan members make mandatory contributions of 8% of gross eligible compensation. This amount goes directly to the individual's account. State statutes require the employer to contribute 5% of employees' eligible compensation. Additionally, employers are required to contribute to OPEB (DB): 1.18% for the retiree medical plan (DB), 0.17% for occupational and death and disability benefits (DB) and 3% of employers' average annual employee compensation to the health reimbursement arrangement (HRA DC). The effective employer contribution is 22%. Plan members are 100% vested with their contributions.

Members become vested in employers' contributions as follows:

- 2 years of service – 25%
- 3 years of service – 50%
- 4 years of service – 75%
- 5 years of service – 100%

Plan provisions and contribution requirements and amendments are established by the Alaska Retirement Management Board (ARMB). Total contributions for the year ended June 30, 2017 are as follows:

	Employer	Employee
Defined contribution (DC)	\$ 25,290	40,464
Other post-employment benefits (DB):		
Retiree medical plan	6,021	-
Occupational death and disability benefits	1,163	-
Other post-employment benefits (DC) –		
Health reimbursement agreement (HRA)	5,753	-
Defined benefit unfunded liability (DBUL)	58,131	-
	<u>\$ 96,358</u>	<u>40,464</u>

CITY OF KING COVE, ALASKA

Notes to the Basic Financial Statements, Continued

Actual contributions were equal to the annual required contributions. The Defined Benefit Unfunded Liability (DBUL) is computed as the difference between the statutory employer contribution rate less employer contributions for the defined contribution, major medical, occupational death and disability and the health reimbursement arrangement. The DBUL calculation is allocated 68% pension and 32% OPEB.

Employer contributions for the years ended June 30, 2017, 2016 and 2015 are as follows:

		Contributions / Pensions	Other Post-Employment Benefits	Total
2017	\$	64,819	31,539	96,358
2016		46,678	48,310	94,988
2015		21,947	32,018	53,965

Actual contributions were equal to the annual required contributions

XII. DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The provisions of the Plan require that all assets and income of the Plan be held in trust for the exclusive benefit of participants and their beneficiaries.

XIII. PERMANENT FUND

City Code 5.05.225 established a capital reserve account (Permanent Fund). It is the City's intent in establishing this fund that it be used to purchase new equipment, replace existing equipment, or make major repairs to existing equipment or facilities so the City has adequate capital facilities and equipment to provide the public services it delivers. In addition, the fund can be used for the public safety and welfare of residents of the City if emergency needs exist.

CITY OF KING COVE, ALASKA

Notes to the Basic Financial Statements, Continued

XIV. RISK MANAGEMENT

The City faces a considerable number of risks of loss, including (a) damage to and loss of property and contents, (b) employee torts, (c) professional liability; i.e., errors and omissions, (d) environmental damage, (e) workers' compensation; i.e., employee injuries, and (f) medical insurance costs of employees. Commercial policies transferring the risk of loss, except for relatively small deductible amounts, are purchased for employee medical costs. The City participates in the Alaska Municipal League Joint Insurance Association (AML/JIA), which provides insurance coverage for property and contents damage, torts, general and automobile liability, and worker's compensation. The AML/JIA is a public entity risk pool organized to share risks among its members. The Association's bylaws provide for the assessment of supplemental contributions from members in the event that losses and expenses for any coverage year exceed the annual contributions and income earned on such contributions for the year. Such supplemental contributions shall be based on each member's annual deposit contribution in comparison to the aggregate annual deposit contributions of all members. The Association made no supplemental assessments during the year ended June 30, 2017. Coverage limits and the deductibles on the policies have stayed relatively constant for the last several years. Claims incurred have not exceeded coverage limits for the last three years.

XV. CONTINGENT LIABILITIES

The City participates in a number of State and federally assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

XVI. RELATED PARTIES

During 2017, the City paid \$98,800 for contract services provided by a contractor related to the board members.

XVII. RECLASSIFICATION

Certain items in the year ended June 30, 2016 financial statements have been reclassified to conform to the year ended June 30, 2017 presentation.

XVIII. ECONOMIC DEPENDENCY

The City of King Cove received approximately 42.52% of its total revenues for the year ended June 30, 2017 from Peter Pan Seafoods, Inc. in the form of Sales and Business Impact taxes and utility revenues. A significant reduction in these revenues would have a substantial impact on the City.

XIX. SUBSEQUENT EVENTS

Management has evaluated events through May 22, 2018, the date which the financial statements are available for issue.

CITY OF KING COVE, ALASKA

Notes to the Basic Financial Statements, Continued

XX. NEW ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Board has passed several new accounting standards with upcoming implementation dates covering several topics as follows:

- GASB 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Effective for fiscal years beginning after June 15, 2017.
- GASB 81 *Irrevocable Split –Interest Agreements*. Effective for fiscal years beginning after December 15, 2016.
- GASB 83 *Certain Retirement Obligations*. Effective for fiscal years beginning after June 15, 2018.
- GASB 84 *Fiduciary Activities*. Effective for fiscal years beginning after December 15, 2018.
- GASB 85 *Omnibus 2017*. Effective for fiscal years beginning after June 15, 2017.
- GASB 86 *Certain Debt Extinguishment Issues*. Effective for fiscal years beginning after June 15, 2017.
- GASB 87 *Leases*. Effective for fiscal years beginning after December 15, 2019.

Statements 81, 83, and 84 are not expected to have any significant impact on the financial statements of the City.

GASB Statements No. 75, the primary objective of this statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. In addition, this statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. This statement also addresses certain circumstances in which a nonemployer entity provides financial support for OPEB of employees of another entity.

GASB Statement No. 85, the objective of this statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]).

CITY OF KING COVE, ALASKA

Notes to the Basic Financial Statements, Continued

GASB Statement No. 86, the primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

GASB Statement No. 87, the objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

REQUIRED SUPPLEMENTARY INFORMATION

City of King Cove
Schedule of the City's Proportionate Share of the Net Pension Liability
Public Employees' Retirement System (PERS)
June 30, 2017

Year	City's Proportion of the Net Pension Liability	City's Proportionate Share of the Net Pension Liability	State of Alaska Proportionate Share of the Net Pension Liability	Total Net Pension Liability	City's Covered Employee Payroll	City's Proportionate Share of the Net Pension Liability as a Percentage of Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.0252%	\$ 1,176,986	\$ 1,058,396	\$ 2,235,382	\$ 1,113,532	106%	62.37%
2016	0.0497%	\$ 2,411,806	\$ 646,386	\$ 3,058,192	\$ 1,585,208	152%	63.96%
2017	0.0391%	\$ 2,185,988	\$ 278,734	\$ 2,464,722	\$ 1,484,352	147%	59.55%

Notes to Schedule:

1. Information presented for 2017 is based upon Plan measurement date June 30, 2016.
2. Measurement is one year prior to fiscal year end for all years presented.
3. In fiscal year 2017 the City implemented GASB 82, which required a retroactive change in covered payroll.
4. This schedule is intended to present 10 years of information. Additional years will be included as it becomes available.

City of King Cove
Schedule of the City's Contributions
Public Employees' Retirement System (PERS)

June 30, 2017

Year	Contractually Required Contribution	Contributions Relative to the Contractually Required Contribution	Contribution Deficiency (Excess)	City's Covered Employee Payroll	Contributions as a Percentage of Covered Employee Payroll
2015	\$ 168,025	\$ (168,025)	\$ -	\$ 1,585,208	10.60%
2016	\$ 139,468	\$ (139,468)	\$ -	\$ 1,484,352	9.40%
2017	\$ 118,000	\$ (118,000)	\$ -	\$ 1,226,761	9.62%

Notes to schedule

- Valuation date: June 30, 2015, which was rolled forward to June 30, 2016.
- Actuarially determined contribution rates are calculated as of June 30th, two years prior to the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

- Actuarial cost method: Entry Age Normal - level percentage of payroll.
- Amortization method: Level dollar, closed.
- Amortization period: 25 years, as a level of percentage of payroll.
- Equivalent single amortization period: 17 years.
- Asset valuation method: The actuarial asset value was reinitialized to equal fair value of assets as of June 30, 2014. Beginning in FY2015, the assets value method recognizes 20% of the gain or loss each year, for a period of 5 years, all assets are valued at fair value.
- Inflation: 3.12% per annum.
- Salary increases: Ranges from 6.36% to 4.92% based on service for Peace Officer/Firefighter. Ranges from 8.35% to 4.34% based on age and service for All Others.
- Investment rate of return: 8%, net of pension plan investment expenses. This is based on an average inflation rate of 3.12% and a real rate of return of 4.88%.
- Retirement age: An age-related assumption is used for participants not yet receiving payments.
- Mortality: Pre-termination mortality rates were based upon the 2010-2013. Actual mortality experience, 60% of male and 65% of female post-termination rates. Deaths are assumed to be occupational 70% of the time for Peace Officers / Firefighters, 95% of all rates of the RP - 2000 Table Base Year provided to 2018 with projected scale BB.
- In fiscal year 2017 the City implemented GASB 82, which required a retroactive change in covered payroll.
- This schedule is intended to present 10 years of information. Additional years will be included as it becomes available.

ADDITIONAL SUPPLEMENTARY INFORMATION

CITY OF KING COVE, ALASKA
General Fund
Balance Sheet
June 30, 2017
(With Comparative Amounts for 2016)

<u>Assets</u>	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 957,986	762,469
Receivables:		
Accounts	495,059	610,236
Sales taxes	298,201	232,890
Other	2,955	2,430
Due from other funds	401,943	506,128
Advances to other funds	1,372,967	1,023,411
Investment in Southwest Governments, LLC	118,136	118,136
	<u>118,136</u>	<u>118,136</u>
Total assets	\$ <u>3,647,247</u>	<u>3,255,700</u>
 <u>Liabilities and Fund Balance</u>		
Liabilities:		
Accounts payable	27,753	17,331
Accrued payroll and related liabilities	87,614	109,000
Due to other funds	1,473,141	848,717
Total liabilities	<u>1,588,508</u>	<u>975,048</u>
Fund balances		
Nonspendable:		
Advances to other funds	1,372,967	953,467
Investment in Southwest Governments, LLC	118,136	118,136
Unassigned	567,636	1,209,049
Total fund balance	<u>2,058,739</u>	<u>2,280,652</u>
Total liabilities and fund balance	\$ <u>3,647,247</u>	<u>3,255,700</u>

CITY OF KING COVE, ALASKA

General Fund

Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and ActualYear Ended June 30, 2017
With Comparative Amounts for 2016

	2017			2016
	Budget	Actual	Variance	Actual
Revenues:				
Taxes:				
Sales tax	\$ 1,600,000	1,747,055	147,055	2,012,209
Business impact tax	100,000	100,000	-	100,000
Total taxes	<u>1,700,000</u>	<u>1,847,055</u>	<u>147,055</u>	<u>2,112,209</u>
Intergovernmental:				
Aleutians East Borough -				
KCAP reimbursement	600,000	489,536	(110,464)	709,023
Federal sources:				
IRR Roads	50,000	64,605	14,605	57,463
COPS Hiring Program	-	9,864	9,864	-
State of Alaska:				
Shared fisheries business tax	386,374	386,374	-	404,385
State PERS relief	50,000	25,691	(24,309)	31,266
State revenue sharing	88,220	88,220	-	132,800
State liquor license	4,000	1,500	(2,500)	2,500
Extraterritorial fish tax	37,127	37,127	-	33,713
State of Alaska PCE	1,000	2,516	1,516	13,441
Total intergovernmental	<u>1,216,721</u>	<u>1,105,433</u>	<u>(111,288)</u>	<u>1,384,591</u>
Charges for services:				
Public safety revenue	3,000	1,042	(1,958)	1,645
Co-op and teen center revenue	-	24,857	24,857	19,313
Recreational programs	55,000	21,367	(33,633)	50,538
Other rental revenue	-	29,594	29,594	-
Total charges for services	<u>58,000</u>	<u>76,860</u>	<u>18,860</u>	<u>71,496</u>
Other revenues - miscellaneous	<u>15,781</u>	<u>12,095</u>	<u>(3,686)</u>	<u>13,614</u>
Total revenues	<u>2,990,502</u>	<u>3,041,443</u>	<u>50,941</u>	<u>3,581,910</u>

(continued)

CITY OF KING COVE, ALASKA

General Fund

Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual, continued

	2017			2016
	Budget	Actual	Variance	Actual
Expenditures:				
General government				
City Council:				
Salaries	\$ 7,800	7,200	600	5,412
Stipends	-	250	(250)	-
Employee benefits	65,628	54,960	10,668	68,918
Travel and per diem	3,000	2,946	54	2,510
Due and fees	1,850	1,810	40	-
Total city council	78,278	67,166	11,112	76,840
Planning:				
Salaries	17,000	18,173	(1,173)	47,614
Stipends	500	200	300	700
Employee benefits	1,579	1,120	459	14,313
Insurance	1,368	-	1,368	1,590
Deferred compensation	1,500	300	1,200	1,200
Total planning	21,947	19,793	2,154	65,417
Administration:				
Salaries	106,060	109,598	(3,538)	116,830
Employee benefits	83,672	62,960	20,712	59,158
Contractual	100	-	100	100
Travel and per diem	5,000	1,607	3,393	5,816
Telephone	7,600	7,004	596	7,262
Postage	5,000	5,425	(425)	4,331
Supplies	11,000	13,141	(2,141)	14,718
Dues and fees	1,000	675	325	1,656
Insurance	5,471	3,111	2,360	6,364
Utilities - diesel	3,500	2,362	1,138	2,890
Utilities - electric	2,000	1,984	16	1,944
Deferred compensation	3,000	3,000	-	3,000
Total administration	233,403	210,867	22,536	224,069

(continued)

CITY OF KING COVE, ALASKA

General Fund

Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual, continued

	2017			2016
	Budget	Actual	Variance	Actual
Expenditures, continued:				
General government, continued:				
Anchorage office:				
Salaries	\$ 140,712	161,822	(21,110)	166,501
Employee benefits	39,868	45,434	(5,566)	44,574
Contractual	60,000	54,400	5,600	54,886
Travel and per diem	35,000	37,937	(2,937)	29,442
Telephone	3,500	4,598	(1,098)	4,098
Postage	175	145	30	223
Supplies	6,000	7,260	(1,260)	9,005
Rent	16,000	18,275	(2,275)	18,267
Dues and fees	7,500	8,670	(1,170)	7,127
Insurance	4,103	-	4,103	4,772
Miscellaneous	3,000	2,365	635	5,282
Deferred compensation	4,350	6,945	(2,595)	3,645
Total Anchorage office	320,208	347,851	(27,643)	347,822
Total general government	653,836	645,677	8,159	714,148
Public safety:				
Salaries	243,363	244,883	(1,520)	230,099
Employee benefits	144,519	120,695	23,824	110,082
Stipends	10,000	8,950	1,050	11,450
Contractual	97,370	98,880	(1,510)	97,370
Travel and per diem	15,000	17,333	(2,333)	1,718
Telephone	17,000	21,293	(4,293)	16,982
Postage	3,000	2,274	726	1,508
Supplies	22,000	19,106	2,894	20,916
Insurance	27,352	46,052	(18,700)	31,814
Utilities - diesel	5,500	3,935	1,565	4,743
Utilities - electric	5,500	6,873	(1,373)	5,909
Fuel	6,500	15,297	(8,797)	10,769
Miscellaneous	2,500	2,712	(212)	2,606
Animal control	9,000	6,920	2,080	13,906
Deferred compensation	6,000	7,875	(1,875)	6,000
Total public safety	614,604	623,078	(8,474)	565,872

(continued)

CITY OF KING COVE, ALASKA

General Fund

Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual, continued

	2017			2016
	Budget	Actual	Variance	Actual
Expenditures, continued:				
Public works:				
Salaries	\$ 228,120	231,531	(3,411)	254,417
Employee benefits	107,275	97,400	9,875	105,016
Contractual	40,000	4,248	35,752	200
Travel and per diem	7,000	2,705	4,295	6,360
Telephone	6,000	6,027	(27)	4,408
Postage	-	46	(46)	-
Supplies	57,000	22,503	34,497	77,585
Insurance	28,721	20,278	8,443	33,407
Utilities - diesel	-	6,069	(6,069)	-
Utilities - electric	28,000	33,813	(5,813)	26,431
Fuel - gas	3,500	9,423	(5,923)	4,975
Fuel - diesel	11,000	9,040	1,960	10,950
Miscellaneous	900	-	900	11,076
Deferred compensation	2,100	2,100	-	2,100
Total public works	519,616	445,183	74,433	536,925
Community services:				
Recreational programs:				
Salaries	48,594	52,960	(4,366)	50,297
Employee benefits	4,227	5,190	(963)	4,638
Telephone	4,500	4,669	(169)	4,719
Supplies	27,000	26,392	608	23,933
Supplies - school building	7,500	1,608	5,892	1,507
Insurance	9,573	8,687	886	11,135
Utilities - diesel	28,000	16,655	11,345	20,545
Utilities - electric	22,000	22,368	(368)	22,210
Fuel	1,250	5,872	(4,622)	4,839
Miscellaneous	1,800	-	1,800	1,800
Total community services	154,444	144,401	10,043	145,623

(continued)

CITY OF KING COVE, ALASKA

General Fund

Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual, continued

	2017			2016
	Budget	Actual	Variance	Actual
Expenditures, continued:				
Other:				
Audit and accounting assistance	\$ 60,000	58,066	1,934	58,238
Legal	18,000	22,237	(4,237)	32,113
Elections	600	600	-	600
Senior citizen power subsidy	52,750	52,444	306	51,151
Bank fees	14,000	13,634	366	15,670
Technical support	7,000	9,757	(2,757)	14,678
Miscellaneous	-	-	-	11,859
Donations	10,000	10,690	(690)	17,959
Aleutia grant	132,189	132,189	-	76,571
Total other	<u>294,539</u>	<u>299,617</u>	<u>(5,078)</u>	<u>278,839</u>
Total expenditures	<u>2,237,039</u>	<u>2,157,956</u>	<u>79,083</u>	<u>2,241,407</u>
Excess of revenues over expenditures	753,463	883,487	130,024	1,340,503
Other financing sources (uses):				
Transfers in:				
Electric Enterprise Fund	60,000	60,000	-	60,000
Transfers out:				
Special Revenue Funds:				
Water and Sewer	(20,000)	(20,000)	-	(82,235)
Permanent Fund	(100,000)	(110,000)	(10,000)	(200,000)
Capital Project Funds:				
General Capital Projects	(725,000)	(725,000)	-	(195,000)
Vehicle and Machinery Replacement	(25,000)	(25,000)	-	(25,000)
Harbor and Port Enterprise Fund	(85,400)	(285,400)	(200,000)	(386,748)
City Fuel Internal Service Fund	(200,000)	-	200,000	(34,417)
Fish Defense Fund	(10,000)	-	10,000	-
Total other financing uses	<u>(1,105,400)</u>	<u>(1,105,400)</u>	<u>-</u>	<u>(863,400)</u>
Net change in fund balance	\$ <u>(351,937)</u>	(221,913)	<u>130,024</u>	477,103
Beginning fund balance		<u>2,280,652</u>		<u>1,803,549</u>
Ending fund balance		\$ <u><u>2,058,739</u></u>		<u><u>2,280,652</u></u>

CITY OF KING COVE, ALASKA

Water and Sewer Special Revenue Fund

Schedule of Revenues, Expenditures and Changes in
Fund Balance (Deficit) - Budget and ActualYear Ended June 30, 2017
(With Comparative Amounts for 2016)

	2017			2016
	Budget	Actual	Variance	Actual
Revenues:				
Local - charges for services:				
Water	\$ 105,000	104,254	(746)	94,840
Water - Peter Pan Seafood	275,000	256,893	(18,107)	385,888
Sewer	38,000	41,967	3,967	38,771
Sewer - Peter Pan Seafood	24,000	24,000	-	32,000
Finance charges	100	108	8	73
Local - other	-	-	-	150
Intergovernmental:				
State PERS relief	6,400	2,368	(4,032)	2,761
State of Alaska PCE	-	3,522	3,522	8,401
Total revenues	<u>448,500</u>	<u>433,112</u>	<u>(15,388)</u>	<u>562,884</u>
Expenditures:				
Water:				
Salaries	43,278	45,022	(1,744)	43,990
Employee benefits	16,110	13,132	2,978	12,845
Contractual	2,000	1,128	872	1,750
Professional services	-	1,713	(1,713)	-
Travel and per diem	-	2,603	(2,603)	-
Telephone	5,000	5,500	(500)	4,803
Supplies	9,000	11,842	(2,842)	16,603
Rent	2,900	2,904	(4)	-
Dues and fees	5,250	3,520	1,730	1,068
Insurance	4,103	5,208	(1,105)	4,772
Utilities - heat	7,000	6,673	327	5,890
Utilities - electric	150,000	154,675	(4,675)	151,614
Fuel - gas	2,500	6,137	(3,637)	4,345
Fuel - diesel	150	-	150	73
Deferred compensation	750	705	45	705
Total water	<u>\$ 248,041</u>	<u>260,762</u>	<u>(12,721)</u>	<u>248,458</u>

(continued)

CITY OF KING COVE, ALASKA

Water and Sewer Special Revenue Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance
(Deficit) - Budget and Actual, continued

	2017			2016
	Budget	Actual	Variance	Actual
Expenditures, continued:				
Sewer:				
Salaries	\$ 35,974	31,953	4,021	31,293
Employee benefits	19,762	14,978	4,784	14,548
Supplies	9,000	6,437	2,563	14,735
Utilities - electric	9,000	7,779	1,221	9,181
Fuel - diesel	750	435	315	568
Deferred compensation	500	405	95	405
Total sewer	<u>74,986</u>	<u>61,987</u>	<u>12,999</u>	<u>70,730</u>
Debt service:				
Principal	33,000	42,175	(9,175)	40,992
Interest	59,000	49,893	9,107	51,740
Total debt service	<u>92,000</u>	<u>92,068</u>	<u>(68)</u>	<u>92,732</u>
Total expenditures	<u>415,027</u>	<u>414,817</u>	<u>210</u>	<u>411,920</u>
Excess of revenues over expenditures	33,473	18,295	(15,178)	150,964
Other financing sources -				
Transfers in General Fund	<u>20,000</u>	<u>20,000</u>	<u>-</u>	<u>82,235</u>
Net change in fund balance	\$ <u>53,473</u>	38,295	<u>(15,178)</u>	233,199
Beginning fund balance (deficit)		<u>(334,776)</u>		<u>(567,975)</u>
Ending fund balance (deficit)		\$ <u>(296,481)</u>		<u>(334,776)</u>

CITY OF KING COVE, ALASKA

General Capital Project Fund

Schedule of Revenues, Expenditures and
Changes in Fund BalanceYear Ended June 30, 2017
With Comparative Amounts for 2016

	<u>2017</u>	<u>2016</u>
Revenues		
Intergovernmental - State sources	\$ 88,417	138,205
Expenditures:		
Public works	282,383	318,802
Water and sewer	41,610	-
Total expenditures	<u>323,993</u>	<u>318,802</u>
Excess (deficiency) of revenues over expenditures	(235,576)	(180,597)
Other financing sources:		
Transfers in	725,000	195,000
Transfers out	(30,000)	-
Net other financing sources (uses)	<u>695,000</u>	<u>195,000</u>
Net change in fund balance	459,424	14,403
Beginning fund balance	<u>25,628</u>	<u>11,225</u>
Ending fund balance (deficit)	\$ <u><u>485,052</u></u>	<u><u>25,628</u></u>

CITY OF KING COVE, ALASKA

Electric Enterprise Fund

Schedule of Net Position

June 30, 2017

(With Comparative Amounts for 2016)

<u>Assets and Deferred Outflows of Resources</u>	<u>2017</u>	<u>2016</u>
Current assets:		
Accounts receivable	\$ 59,209	26,175
Allowance for doubtful accounts	(1,960)	(4,506)
Net accounts receivable	57,249	21,669
Grants receivable	50,454	526,095
Prepaid expense	15,000	-
Total current assets	122,703	547,764
Noncurrent assets:		
Restricted cash -		
Bond reserves	166,203	165,813
Property, plant and equipment:		
Construction in progress - Waterfall Creek hydroelectric project	6,116,781	5,078,005
Land	48,372	48,372
Infrastructure	3,955,382	3,955,382
Improvements	723,045	723,045
Buildings	2,203,494	2,203,494
Equipment	5,009,193	5,009,193
Total property, plant and equipment	18,056,267	17,017,491
Less accumulated depreciation	(6,529,720)	(6,204,167)
Net property, plant and equipment	11,526,547	10,813,324
Total noncurrent assets	11,692,750	10,979,137
Deferred outflows of resources -		
Pension deferrals	57,206	95,224
Total assets and deferred outflows of resources	\$ 11,872,659	11,622,125
<u>Liabilities, Deferred Inflows of Resources and Net Position</u>		
Current liabilities:		
Accounts payable	18,257	53,638
Accrued payroll and related liabilities	10,659	10,167
Customer deposits	6,188	7,534
Accrued interest payable	15,068	15,568
Accrued leave	8,226	7,014
Current portion of revenue bonds	120,000	115,000
Total current liabilities	178,398	208,921
Noncurrent liabilities:		
Advance from other funds	1,261,921	753,255
Revenue bonds	1,755,000	1,875,000
Unamortized bond premium	166,473	186,095
Net pension liability	321,759	353,498
Total noncurrent liabilities	3,505,153	3,167,848
Deferred inflows of resources -		
Pension deferrals	41,009	6,293
Net position:		
Net investment in capital assets	9,485,074	8,637,229
Unrestricted	(1,336,975)	(398,166)
Total net position	8,148,099	8,239,063
Total liabilities, deferred inflows of resources and net position	\$ 11,872,659	11,622,125

CITY OF KING COVE, ALASKA

Electric Enterprise Fund

Schedule of Revenues, Expenses and Changes in Net Position

Year Ended June 30, 2017
(With Comparative Amounts for 2016)

	2017	2016
Operating revenues - charges for services:		
Electric	\$ 599,905	602,672
State of Alaska PCE	8,806	21,170
City owned electric	375,337	384,139
Harbor electric	147,861	129,429
Finance charges	250	248
Other	47,190	66,245
Total operating revenues	<u>1,179,349</u>	<u>1,203,903</u>
Operating expenses:		
Salaries	167,512	169,161
Employee benefits	117,028	177,278
Contractual	1,465	-
Professional services	-	1,187
Travel and training	-	85
Telephone	14,213	12,058
Supplies	45,773	39,241
Dues and fees	3,708	510
Insurance	20,532	20,679
Power plant electric	45,878	32,016
Fuel - power plant	360,218	273,581
Fuel - vehicles	8,501	6,380
Equipment	-	853
Miscellaneous expense	-	2,495
Depreciation	325,553	329,567
Total operating expenses	<u>1,110,381</u>	<u>1,065,091</u>
Income from operations	68,968	138,812
Nonoperating revenues (expenses):		
Interest expense	(74,115)	(72,848)
Grant revenue	50,454	2,549,596
Senior power subsidy	(52,444)	(51,151)
Other contributions	-	463,622
State PERS relief	6,173	15,267
Net nonoperating revenues (expenses)	<u>(69,932)</u>	<u>2,904,486</u>
Income before transfers	(964)	3,043,298
Other financing sources (uses):		
Transfers to General Fund	(60,000)	(60,000)
Transfers to Permanent Fund	(30,000)	(30,000)
Total other financing sources (uses)	<u>(90,000)</u>	<u>(90,000)</u>
Change in net position	(90,964)	2,953,298
Net position, beginning of year	<u>8,239,063</u>	<u>5,285,765</u>
Net position, ending of year	\$ <u><u>8,148,099</u></u>	<u><u>8,239,063</u></u>

CITY OF KING COVE, ALASKA

Electric Enterprise Fund

Schedule of Cash Flows

Year Ended June 30, 2017
(With Comparative Amounts for 2016)

	2017	2016
Cash flows from operating activities:		
Receipts from customers and users	1,142,423	1,225,108
Payments to suppliers	(550,669)	(349,255)
Payments to employees	(235,668)	(230,537)
Net cash flows from operating activities	356,086	645,316
Cash flows from noncapital financing activities:		
Senior power subsidy	(52,444)	(51,151)
Increase in advance from other funds	508,666	415,967
Transfers out	(90,000)	(90,000)
Net cash flows from noncapital financing activities	366,222	274,816
Cash flows from capital and related financing activities:		
Purchase of capital assets	(1,038,776)	(4,301,946)
Capital contributions received	526,095	2,573,537
Proceeds from issuance of debt	-	1,079,324
Principal payments on long-term debt	(115,000)	(115,000)
Interest payments on long-term debt	(94,237)	(76,568)
Net cash flows from (used) by capital and related financing activities	(721,918)	(840,653)
Net increase in cash and cash equivalents	390	79,479
Beginning cash and cash equivalents	165,813	86,334
Ending cash and cash equivalents	166,203	165,813
Reconciliation of income (loss) from operations to net cash provided (used) by operating activities:		
Income from operations	68,968	138,812
Adjustments to reconcile loss from operations to net cash flows from operating activities:		
Depreciation	325,553	329,567
Pension expense	47,168	113,134
(Increase) in assets:		
Net accounts receivable	(35,580)	18,464
Prepaid expenses	(15,000)	
Increase (decrease) in liabilities:		
Accounts payable	(35,381)	39,830
Accrued payroll and related liabilities	492	(91)
Customer deposits	(1,346)	2,741
Accrued leave	1,212	2,859
Net cash flows provided by operating activities	\$ 356,086	645,316

CITY OF KING COVE, ALASKA

Harbor and Port Enterprise Fund

Schedule of Net Position

June 30, 2017

(With Comparative Amounts for 2016)

<u>Assets and Deferred Outflows of Resources</u>	<u>2017</u>	<u>2016</u>
Current assets:		
Accounts receivable	\$ 104,626	96,639
Allowance for doubtful accounts	(3,139)	(4,983)
Net accounts receivable	101,487	91,656
Noncurrent assets:		
Restricted cash - bond reserves	108,578	108,502
Property, plant and equipment:		
Construction in progress	14,200	-
Infrastructure	21,720,359	21,720,359
Buildings	371,987	355,860
Equipment	878,987	932,137
Total property, plant and equipment	22,985,533	23,008,356
Less accumulated depreciation	(8,014,199)	(7,617,251)
Net property, plant and equipment	14,971,334	15,391,105
Total noncurrent assets	15,079,912	15,499,607
Deferred outflows of resources -		
Pension deferrals	31,632	78,726
Total assets and deferred outflows of resources	\$ 15,213,031	15,669,989
<u>Liabilities, Deferred Inflows of Resources and Net Position</u>		
Current liabilities:		
Accounts payable	1,553	2,196
Accrued payroll and related liabilities	12,607	12,324
Accrued interest payable	15,861	16,461
Accrued leave	9,297	7,656
Current portion of revenue bonds	60,000	55,000
Total current liabilities	99,318	93,637
Noncurrent liabilities:		
Advance from other funds	66,914	200,212
Revenue bonds	885,000	945,000
Unamortized bond premium	15,888	17,023
Net pension liability	252,937	292,254
Total noncurrent liabilities	1,220,739	1,454,489
Deferred inflows of resources -		
Pension deferrals	48,208	5,203
Net position:		
Net investment in capital assets	14,010,446	14,374,082
Unrestricted	(165,680)	(257,422)
Total net position	13,844,766	14,116,660
Total liabilities, deferred inflows of resources and net position	\$ 15,213,031	15,669,989

CITY OF KING COVE, ALASKA

Harbor and Port Enterprise Fund

Schedule of Revenues, Expenses and Changes in Net Position

Year Ended June 30, 2017
(With Comparative Amounts for 2016)

	2017	2016
Revenues:		
Charges for services:		
Operating revenues:		
Moorage	\$ 150,256	155,955
Pot storage	16,770	17,709
Haulout	58,200	56,996
Wharfage	60,343	34,537
Harbor electric	4,573	4,003
State ferry	9,900	7,700
Space rent	11,866	7,747
Lockers	22,097	20,671
Skiff storage	2,483	2,551
Warehouse loft usage	1,314	2,282
Forklift	40,250	35,740
Other	4,408	16,019
Harbor fuel inbound	-	2,585
Finance charges	3,653	2,687
Total revenues	386,113	367,182
Operating expenses:		
Harbor:		
Salaries	180,722	167,645
Employee benefits	142,042	103,009
Contractual	2,117	-
Travel and per diem	-	2,316
Telephone	4,116	3,871
Supplies	18,906	28,356
Utilities - heat	3,825	5,412
Utilities - electric	18,638	17,576
Advertising	378	757
Insurance	34,706	39,851
Fuel - gas	3,962	2,946
Fuel - diesel	3,689	3,702
Depreciation	478,348	478,459
Miscellaneous	205	-
Repairs and Maintenance	11,935	-
Total harbor	\$ 903,589	853,900

(continued)

CITY OF KING COVE, ALASKA

Harbor and Port Enterprise Fund

Schedule of Revenues, Expenses and Changes in
Net Position, continued

	2017	2016
Operating expenses, continued:		
Port:		
Salaries	\$ 13,486	13,540
Employee benefits	6,669	4,550
Insurance	-	6,363
Total port	<u>20,155</u>	<u>24,453</u>
Total operating expenses	<u>923,744</u>	<u>878,353</u>
(Loss) from operations	(537,631)	(511,171)
Nonoperating revenues (expenses):		
Interest expense	(47,700)	(49,769)
Bond issuance costs	(700)	(700)
Loss on disposition of capital assets	(3,000)	-
Interest rate subsidy	14,090	6,901
State PERS relief	7,647	12,622
Net nonoperating revenues (expenses)	<u>(29,663)</u>	<u>(30,946)</u>
(Loss) before transfers	(567,294)	(542,117)
Other financing sources (uses):		
Transfers from (to) other funds:		
General Fund	285,400	386,748
General Capital Projects Fund	30,000	-
Solid Waste Collection Special Revenue Fund	(20,000)	(20,000)
Total other financing sources (uses)	<u>295,400</u>	<u>366,748</u>
Change in net position	(271,894)	(175,369)
Net position, beginning of year	<u>14,116,660</u>	<u>14,292,029</u>
Net position, ending of year	\$ <u><u>13,844,766</u></u>	<u><u>14,116,660</u></u>

CITY OF KING COVE, ALASKA

Harbor and Port Enterprise Fund

Schedule of Cash Flows

Year Ended June 30, 2017
(With Comparative Amounts for 2016)

	2017	2016
Cash flows provided (used) by operating activities:		
Receipts from customers	\$ 376,282	365,572
Payments to suppliers	(103,120)	(109,720)
Payments to employees	(282,566)	(235,812)
Net cash flows provided (used) by operating activities	<u>(9,404)</u>	<u>20,040</u>
Cash flows provided (used) by noncapital financing activities:		
Increase (decrease) in advance from other funds	(133,298)	(266,912)
Interest rate subsidy	14,090	6,901
Transfers in	315,400	386,748
Transfers out	(20,000)	(20,000)
Net cash flows provided (used) by noncapital financing activities	<u>176,192</u>	<u>106,737</u>
Cash flows provided (used) by capital and related financing activities:		
Bond issuance costs	(700)	(700)
Purchase of capital assets	(61,577)	(24,655)
Principal payments on long-term debt	(55,000)	(50,000)
Interest payments on long-term debt	(49,435)	(51,404)
Net cash flows provided (used) by capital and related financing activities	<u>(166,712)</u>	<u>(126,759)</u>
Net increase in cash and cash equivalents	76	18
Beginning cash and cash equivalents	<u>108,502</u>	<u>108,484</u>
Ending cash and cash equivalents	\$ <u><u>108,578</u></u>	<u><u>108,502</u></u>
Reconciliation of loss from operations to net cash provided (used) by operating activities:		
Loss from operations	\$ (537,631)	(511,171)
Adjustments to reconcile loss from operations to net cash flows from operating activities:		
Depreciation	478,348	478,459
Pension expense	58,429	52,746
(Increase) decrease in assets - accounts receivable (net)	(9,831)	(1,610)
Increase (decrease) in liabilities:		
Accounts payable	(643)	1,430
Accrued payroll and related liabilities	283	1,924
Accrued leave	1,641	(1,738)
Net cash flows provided (used) by operating activities	\$ <u><u>(9,404)</u></u>	<u><u>20,040</u></u>

CITY OF KING COVE, ALASKA

Nonmajor Governmental Funds

Combining Balance Sheet

June 30, 2017

	Special Revenue Funds		Capital Project Funds	Total Nonmajor Governmental Funds
<u>Assets</u>	Solid Waste Collection Fund	Permanent Fund	Vehicle and Machinery Replacement	
Cash and cash equivalents	\$ -	451,824	-	451,824
Accounts receivable	17,513	-	-	17,513
Due from other funds	75,712	888,340	-	964,052
Total assets	\$ 93,225	1,340,164	-	1,433,389
<u>Liabilities and Fund Balances (Deficits)</u>				
Liabilities:				
Accounts payable	253	-	828	1,081
Accrued payroll and related liabilities	4,733	-	-	4,733
Due to other funds	-	-	50,880	50,880
Total liabilities	4,986	-	51,708	56,694
Fund balances (deficit):				
Comitted	-	1,340,164	-	1,340,164
Assigned:				
Solid waste collection	88,239	-	-	88,239
Unassigned	-	-	(51,708)	(51,708)
Total fund balances (deficit)	88,239	1,340,164	(51,708)	1,376,695
Total liabilities and fund balances (deficits)	\$ 93,225	1,340,164	-	1,433,389

CITY OF KING COVE, ALASKA

Nonmajor Governmental Funds

Combining Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit)

Year Ended June 30, 2017

	Special Revenue Funds		Capital Project Funds	
	Solid Waste Collection	Permanent Fund	Vehicle and Machinery Replacement	Total Nonmajor Governmental Funds
Revenues:				
Intergovernmental - state sources	\$ 2,041	-	-	2,041
Charges for services	108,844	-	-	108,844
Other	70	2,254	-	2,324
Total revenues	110,955	2,254	-	113,209
Expenditures:				
Public safety	-	-	49,001	49,001
Public works	-	-	26,251	26,251
Water and sewer	-	-	4,551	4,551
Solid waste	108,894	-	42,651	151,545
Debt service:				
Principal	-	-	17,475	17,475
Interest	-	-	4,244	4,244
Total expenditures	108,894	-	144,173	253,067
Excess (deficiency) of revenues over expenditures	2,061	2,254	(144,173)	(139,858)
Other financing sources:				
Transfers in	20,000	140,000	25,000	185,000
Net change in fund balances	22,061	142,254	(119,173)	45,142
Beginning fund balances	66,178	1,197,910	67,465	1,331,553
Ending fund balances (deficit)	\$ 88,239	1,340,164	(51,708)	1,376,695

CITY OF KING COVE, ALASKA

Solid Waste Collection Special Revenue Fund

Schedule of Revenues, Expenditures and Changes in
Fund Balance - Budget and ActualYear Ended June 30, 2017
(With Comparative Amounts for 2016)

	2017			2016
	Budget	Actual	Variance	Actual
Revenues:				
Local - charges for services:				
Collection fees	\$ 70,000	69,935	(65)	68,403
Collection fees - Peter Pan Seafood	60,000	38,909	(21,091)	60,243
Intergovernmental -				
State PERS relief	4,000	2,041	(1,959)	2,356
Other - finance charges	100	70	(30)	58
Total revenues	<u>134,100</u>	<u>110,955</u>	<u>(23,145)</u>	<u>131,060</u>
Expenditures:				
Solid waste:				
Salaries	68,220	71,197	(2,977)	69,166
Employee benefits	30,470	28,833	1,637	26,057
Supplies	7,000	1,513	5,487	4,418
Travel and per diem	-	-	-	570
Insurance	8,206	4,509	3,697	9,544
Fuel - diesel	3,600	2,452	1,148	3,198
Deferred compensation	500	390	110	390
Total expenditures	<u>117,996</u>	<u>108,894</u>	<u>9,102</u>	<u>113,343</u>
Excess of revenues over expenditures	16,104	2,061	(14,043)	17,717
Other financing sources (uses):				
Transfers in (out) other funds:				
Vehicle and Machinery Replacement Fund	(50,000)	-	50,000	-
Harbor and Port Enterprise Fund	20,000	20,000	-	20,000
Total other financing sources (uses)	<u>(30,000)</u>	<u>20,000</u>	<u>50,000</u>	<u>20,000</u>
Net change in fund balance	\$ <u>(13,896)</u>	22,061	<u>35,957</u>	37,717
Beginning fund balance		66,178		28,461
Ending fund balance		\$ <u>88,239</u>		<u>66,178</u>

CITY OF KING COVE, ALASKA

Permanent Fund Special Revenue Fund

Schedule of Revenues, Expenditures and Changes in
Fund Balance - Budget and ActualYear Ended June 30, 2017
(With Comparative Amounts for 2016)

	2017			2016
	Budget	Actual	Variance	Actual
Revenues - investment income	\$ 200	2,254	2,054	408
Expenditures	-	-	-	-
Excess of revenues over expenditures	200	2,254	2,054	408
Other financing sources:				
Transfers from funds:				
Electric Enterprise Fund	30,000	30,000	-	30,000
General Fund	100,000	110,000	10,000	200,000
Total other financing sources	130,000	140,000	10,000	230,000
Net change in fund balance	\$ 130,200	142,254	12,054	230,408
Beginning fund balance		1,197,910		967,502
Ending fund balance		\$ 1,340,164		1,197,910

CITY OF KING COVE, ALASKA

Vehicle and Machinery Replacement Capital Project Fund

Schedule of Revenues, Expenditures and Changes
In Fund Balance (Deficit)Year Ended June 30, 2017
With Comparative Amounts for 2016

	2017	2016
Revenues	\$ -	-
Expenditures - public safety:		
Equipment	28,268	-
Repairs and Maintenance -	20,733	-
Total expenditures - public safety:	49,001	-
Expenditures - public works -		
Repairs and maintenance	26,251	-
Expenditures - water and sewer -		
Repairs and maintenance	4,551	-
Expenditures - solid waste -		
Repairs and maintenance	42,651	-
Expenditures - debt service:		
Principal	17,475	15,624
Interest	4,244	6,085
Total expenditures - debt service	21,719	21,709
Total expenditures	144,173	21,709
Excess (deficiency) of revenues over expenditures	(144,173)	(21,709)
Other financing sources:		
Transfers in - General Fund	25,000	25,000
Net change in fund balance	(119,173)	3,291
Beginning fund balance	67,465	64,174
Ending fund balance (deficit)	\$ (51,708)	67,465

CITY OF KING COVE, ALASKA

City Fuel Internal Service Fund

Schedule of Net Position

June 30, 2017

(With Comparative Amounts for 2016)

<u>Assets</u>	<u>2017</u>	<u>2016</u>
Current assets:		
Fuel inventory	\$ 96,731	123,712
Noncurrent assets:		
Property, plant and equipment - fuel tanks	871,489	871,489
Less accumulated depreciation	(392,167)	(348,592)
Net property, plant and equipment	479,322	522,897
Total assets	\$ 576,053	646,609
<u>Liabilities and Net Position</u>		
Current liabilities:		
Accrued payroll and related liabilities	-	81
Loans payable	-	20,159
Total current liabilities	-	20,240
Noncurrent liabilities - Advance from other funds	44,132	69,944
Total liabilities	44,132	90,184
Net position:		
Net investment in capital assets	479,322	522,897
Unrestricted	52,599	33,528
Total net position	531,921	556,425
Total liabilities and net position	\$ 576,053	646,609

CITY OF KING COVE, ALASKA

City Fuel Internal Service Fund

Schedule of Revenues, Expenses and Changes in Net Position

Year Ended June 30, 2017
(With Comparative Amounts for 2016)

	<u>2017</u>	<u>2016</u>
Operating revenues - fuel sales	\$ <u>457,312</u>	<u>359,324</u>
Operating expenses:		
Salaries and benefits	18,556	20,606
Supplies	1,718	-
Fuel	417,967	298,834
Depreciation	<u>43,575</u>	<u>43,574</u>
Total operating expenses	<u>481,816</u>	<u>363,014</u>
Loss from operations	(24,504)	(3,690)
Nonoperating revenues (expenses):		
Interest expense	<u>-</u>	<u>(4,356)</u>
Income (loss) before transfers	(24,504)	(8,046)
Other financing sources:		
Transfers in - General Fund	<u>-</u>	<u>34,417</u>
Change in net position	(24,504)	26,371
Beginning net position	<u>556,425</u>	<u>530,054</u>
Ending net position	\$ <u><u>531,921</u></u>	<u><u>556,425</u></u>

CITY OF KING COVE, ALASKA

City Fuel Internal Service Fund

Schedule of Cash Flows

Year Ended June 30, 2017
(With Comparative Amounts for 2016)

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Receipts from customers	\$ 457,312	359,324
Payments to suppliers	(392,704)	(325,229)
Payments to employees	(18,637)	(20,525)
Net cash flows from operating activities	<u>45,971</u>	<u>13,570</u>
Cash flows from noncapital financing activities:		
Increase (decrease) in advance from other funds	(25,812)	106,805
Fuel loan payments	(20,159)	(150,436)
Interest expense	-	(4,356)
Transfers in	-	34,417
Net cash flows from noncapital financing activities	<u>(45,971)</u>	<u>(13,570)</u>
Net increase in cash and investments	-	-
Beginning cash and cash equivalents	<u>-</u>	<u>-</u>
Ending cash and cash equivalents	\$ <u><u>-</u></u>	<u><u>-</u></u>
Reconciliation of loss from operations to net cash provided (used) by operating activities:		
Loss from operations	\$ (24,504)	(3,690)
Adjustments to reconcile loss from operations to net cash flows from operating activities:		
Depreciation	43,575	43,574
(Increase) decrease in assets - fuel inventory	26,981	(26,395)
Increase (decrease) in liabilities:		
Accounts payable	-	-
Accrued payroll and related liabilities	(81)	81
Net cash flows from operating activities	\$ <u><u>45,971</u></u>	<u><u>13,570</u></u>

COMPLIANCE REPORT

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

Independent Auditor's Report

Members of the City Council
City of King Cove
King Cove, Alaska

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of King Cove, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City of King Cove's basic financial statements, and have issued our report thereon dated May 22, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as Findings 2017-001 and 2017-002 that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of King Cove's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Response to Findings

The City of King Cove's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses and corrective action plan. The City of King Cove's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Anchorage, Alaska
May 22, 2018

CITY OF KING COVE, ALASKA

Schedule of Findings

Year Ended June 30, 2017

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

 X Yes

 No

Significant deficiency(ies) identified?

 Yes

 X None reported

Noncompliance material to financial statements?

 Yes

 X No

Section II – Financial Statement Findings

Finding 2017-001

Internal Controls over Payroll

Material Weakness

Condition:

The majority of personnel files did not have up-to-date authorized pay rates. There were multiple occurrences of time sheets not being reviewed and approved by a supervisor, and three instances noted in which no time sheet for an hourly employee could be located. There were multiple instances in which personnel files tested lacked one or more required documents. This is a repeat of Finding 2016-003.

Criteria:

Employees should have up-to-date, authorized payrates documented in their personnel files, along with other required documents. Time sheets should be reviewed and approved by a supervisor before payroll is processed and checks are issued.

Context:

We tested a sample of 40 disbursements out of a population of about 800 disbursements. The sample included disbursements to 24 different individuals. All but three of the files did not have up-to-date pay rates at the times of the disbursements. For 11 of the 40 disbursements, time sheets were not reviewed and approved. Of these 11 instances, a time sheet corresponding to the disbursement could not be located. In only 3 of the 40 disbursements were pay rates used to compute payroll in agreement with the information in the personnel file.

Cause:

The City has no formalized written policies for internal controls over payroll and personnel files. There is a lack of a review process and procedures pertaining to the upkeep of personnel files and the review and approval of time sheets.

CITY OF KING COVE, ALASKA

Schedule of Findings, Continued

Effect: There is a risk of over or underpaying employees, creating misstatements of payroll expenses and associated liabilities. Lack of properly maintained personnel files could result in the City paying non-existent employees.

Recommendation: We recommend that the City adopt and follow formal policies for maintenance of employee files and review and approval of time sheets by supervisors.

Management Response: See Corrective Action Plan.

Finding 2017-002
Material Weakness

Internal Controls over Sales Tax

Condition: Sales tax forms with erroneous amounts were submitted to the City because businesses either used an incorrect form or used the appropriate form but calculated the tax due incorrectly. The forms were processed without correction.

Criteria: Sales tax returns received should be reviewed to ensure that the correct form was used by the taxpayer and that the calculation of tax due is correct.

Context: We tested a sample of 12 transactions from a population of 245, for the purpose of obtaining an understanding of the system, but not to place reliance on internal controls over sales tax. We identified one instance in which the taxpayer used an incorrect form to file, resulting in a calculated tax due that was less than it should have been; and one instance in which the taxpayer had used the appropriate form but had made errors on the form resulting in a calculated tax due higher than it should have been.

Cause: There are no formal policies and procedures for internal controls over the processing of sales tax returns. City personnel did not review the forms to ensure that the correct form was used and that the tax due on the submitted return was computed correctly.

Effect: Sales tax revenues and receivables could be misstated.

Recommendation: The City should develop and implement procedures to ensure the review of sales tax returns to ensure that the correct form has been used and that the amount due has been calculated correctly.

Management Response: See Corrective Action Plan.



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Summary of Prior Audit Findings

June 30, 2017

Finding 2016-001 **Significant Deficiency**

Internal Controls over Cash Disbursements

Condition:

During our testing of internal controls over cash disbursements we noted several transactions which were incorrectly coded. Several ACH transactions were missing written approval and documentation of coding. One check was also missing documentation of approval or coding as it was approved over the phone.

Status:

This finding has been resolved.

Finding 2016-002 **Material Weakness**

Internal Controls over Coding Grant Expenditures

Condition:

During our testing over material checks, an invoice for equipment was incorrectly coded to supplies for the landfill upgrade grant.

Status:

This Finding has been resolved.

Finding 2016-003 **Material Weakness**

Internal Controls over Payroll

Condition:

The majority of personnel files did not contain up-to-date authorized pay rates and several employees did not have a W-4 or I-9.

Status:

This Finding is repeated as Finding 2017-001.

Finding 2016-004 **Material Weakness**

Internal Controls over Credit Cards

Condition:

During our testing of internal controls we noted that credit cards did not have supporting documentation and lacked a secure approval process for coding. Additionally we noted two charges which were miscoded, one which did not have any backup documentation with coding to examine.

Status:

This Finding has been resolved.

CITY OF KING COVE, ALASKA

Summary of Prior Audit Findings, Continued

Finding 2016-005
Material Weakness

Internal Control over General Journal Entries

Condition:

During the audit we noted that general journal entries were not accompanied by supporting documentation and there is no written policies and procedures for recording journal entries in the general ledger.

Status:

This Finding is has been resolved.

Finding 2016-006
**Material Weakness/
Material Non-Compliance**

Internal Control over Cash Disbursements and Allowable Costs

State Award Programs

<u>Agency</u>	<u>Grant #</u>	<u>Program</u>	<u>Award Year</u>
AEA	7060929	Waterfall Creek Hydroelectric Project	2016
DCCED	13-DC-395	Landfill Incinerator	2013

Condition:

During our testing of transactions charged to these programs we noted 13 transactions that did not have proper approval and an additional two transactions had improper coding.

Status:

This finding has been resolved.

Finding 2016-007
**Significant Deficiency/
Non-Compliance**

Internal Controls over Reporting

State Award Programs

<u>Agency</u>	<u>Grant #</u>	<u>Program</u>	<u>Award Year</u>
AEA	7060929	Waterfall Creek Hydroelectric Project	2016

Condition:

We were unable to determine the accuracy of the reports submitted to AEA due to lack of supporting documentation for reports and a lack of consistency between what is recorded in the general ledger and what is submitted in the reports to AEA.

Status:

This finding has been resolved.

CITY OF KING COVE, ALASKA

Summary of Prior Audit Findings, Continued

Finding 2016-008

Material Weakness/

Material Non-Compliance

Internal Controls over Procurement Policies

State Award Programs

<u>Agency</u>	<u>Grant #</u>	<u>Program</u>	<u>Award Year</u>
AEA	7060929	Waterfall Creek Hydroelectric Project	2016
DCCED	13-DC-395	Landfill Incinerator	2013

Condition:

The City initiated contractors for projects funded by State grants without going through procurement procedures. The City also failed to document any communication that informed the contractor that the project is subject to prevailing rates of wages requirement for a Public Contract.

Status:

This Finding has been resolved.

Finding 2016-009

Material Weakness/

Material Noncompliance

Internal Controls over Coding Grant Expenditures

State Award Programs

<u>Agency</u>	<u>Grant #</u>	<u>Program</u>	<u>Award Year</u>
DCCED	13-DC-395	Landfill Incinerator	2013

Condition:

During our testing over material checks, an invoice for equipment was incorrectly coded to supplies.

Status:

This Finding has been resolved.



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Corrective Action Plan

June 30, 2017

Financial Statement Findings

Finding 2017-001

Internal Controls over Payroll

Name of Contact: Amber Jusefowystch, Kim Newman

Corrective Action Plan: The City will update personnel files with employees' most recent rate of pay, I-9s and W2s. Employees and supervisors will be reminded in writing of the requirement of supervisors to approve timecards.

Proposed Completion Date: December 31, 2018.

Finding 2017-002

Internal Controls over Sales Tax

Name of Contact: Kim Newman

Corrective Action Plan: A mailing containing the most up to date tax form will be sent to King Cove businesses. Tax forms will be checked by two employees.

Proposed Completion Date: December 31, 2018.